NEWPORT CORP
Form 10-K
March 13, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 28, 2013

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 000-01649

NEWPORT CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**94-0849175**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1791 Deere Avenue, Irvine, California 92606

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: **(949) 863-3144**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, Par Value $0.1167 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this

Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

As of June 28, 2013, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $533.3 million, calculated based upon the closing price of the registrant s common stock as reported by the NASDAQ Global Select Market on such date.

As of February 28, 2014, 39,568,563 shares of the registrant s sole class of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for its 2014 Annual Meeting of Stockholders, which is expected to be held on May 20, 2014, are incorporated by reference into Part III of this Annual Report on Form 10-K. Only those portions of the Proxy Statement that are specifically incorporated by reference herein shall constitute a part of this Annual Report on Form 10-K.

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PART IV

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This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and we intend that such forward-looking statements be subject to the safe harbors created thereby. For this purpose, any statements contained in this Annual Report on Form 10-K except for historical information may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as anticipate, believe, can, continue, could, estimate, expect, intend, may, plan, potential, predict, should, will, would, or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements.

The forward-looking statements included herein are based on current expectations of our management based on available information and involve a number of risks and uncertainties, all of which are difficult or impossible to predict accurately and many of which are beyond our control. As such, our actual results may differ significantly from those expressed in any forward-looking statements. Factors that may cause or contribute to such differences include, but are not limited to, those discussed in more detail in Item 1 (Business) and Item 1A (Risk Factors) of Part I and Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) of Part II of this Annual Report on Form 10-K. Readers should carefully review these risks, as well as the additional risks described in other documents we file from time to time with the Securities and Exchange Commission. In light of the significant risks and uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that such results will be achieved, and readers are cautioned not to place undue reliance on such forward-looking information. Except as required by law, we undertake no obligation to revise the forward-looking statements contained herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS

General Description of Business

Newport Corporation (collectively with our subsidiaries, referred to as Newport, we, our and us) is a global supplier of advanced technology products and systems to a wide range of industries, including scientific research, microelectronics, defense and security, life and health sciences, and industrial markets. We provide a broad portfolio of products to customers in these end markets, allowing us to offer them an end-to-end resource for photonics solutions.

The demands of scientific and commercial applications for higher precision and miniaturization have caused photonics, the science and technology of generating and harnessing light in productive ways, to become an increasingly important enabling technology, permitting researchers and commercial users to perform tasks that cannot be accomplished by existing electrical, mechanical or chemical processes. In addition, in markets such as microelectronics and life and health sciences, photonics technology is replacing these current processes in a number of applications that it can accomplish faster, better or more economically.

We provide a wide range of photonics technology and products designed to enhance the capabilities and productivity of our customers precision applications, including:

- lasers and laser technology, including solid-state lasers, ultrafast lasers and laser systems, tunable lasers, fiber lasers, and gas lasers;

- optical components and subassemblies, including precision laser optics and opto-mechanical subassemblies, optics and lens assemblies for thermal imaging, thin-film optical filters, and ruled and holographic diffraction gratings;

- photonics instruments, systems and components, including optical power and energy meters, light sources, optical detectors and modulators, laser beam profilers, monochromators, spectroscopy instrumentation, laser diode controllers and drivers, and laser diode burn-in and life test systems;

- high-precision positioning products and systems;

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- vibration isolation products and systems; and

- three-dimensional non-contact measurement sensors and equipment.

In addition to our individual product offerings, we have significant expertise in integrating our products into systems and subsystems that are engineered to meet our customers specific application requirements. We believe that our ability to develop and manufacture integrated solutions, together with our broad portfolio of products and technologies, gives us a significant competitive advantage.

For more than fifty years, we have serviced the needs of research laboratories for precision equipment. We have made a number of acquisitions, which have contributed to the expansion of our product offerings, technology base and geographic presence and have allowed us to evolve from a provider of discrete components and instruments primarily for research applications to a company that manufactures both components and integrated solutions for research and commercial applications. Through our own product development and our acquisitions of companies and businesses, including our acquisition of the New Focus business in 2009, and our most recent acquisitions discussed below, we have built a family of industry-leading product brands, including our ILX Lightwave®, New Focus , Newport , Ophir®, Optimet , Oriel® Instruments, Richardson Gratings , Spiricon®, and Spectra-Physics® brands.

Acquisitions

In July 2011, we acquired High Q Technologies GmbH and its subsidiaries (High Q). This acquisition broadened our ultrafast laser capabilities, particularly for applications in the life and health sciences and industrial markets, and has expanded our presence in European laser markets.

In October 2011, we acquired Ophir Optronics Ltd. and its subsidiaries (Ophir). This acquisition significantly expanded our capabilities in infrared optics and photonics instrumentation, adding to our product offerings Ophir s precision infrared optics and lens assemblies; laser measurement instrumentation, including laser beam profilers and laser power and energy meters and sensors; and three-dimensional non-contact measurement sensors and equipment.

In January 2012, we acquired ILX Lightwave Corporation (ILX). This acquisition further expanded our photonics instrumentation and systems offerings, adding to our product portfolio ILX s diode laser controllers and drivers, temperature controllers, current sources, optical power and wavelength meters, semiconductor laser/LED burn-in, test and characterization systems, and fiber optic sources.

Divestitures

In 2010, we concluded that our Hilger Crystals Limited subsidiary, which we acquired in 2004 as part of the acquisition of Spectra-Physics, Inc. and related photonics entities (collectively, Spectra-Physics) and which manufactures infrared, x-ray and gamma ray synthetic crystals primarily

for security applications, was not a strategic fit with our overall business. As a consequence, we sold all of the outstanding capital stock of Hilger Crystals Limited in July 2010.

In the third quarter of 2013, we determined that our advanced packaging systems business, which develops and manufactures automated packaging, die bonding, dispensing and laser-based systems used in the manufacture of solar panels and communications and electronics devices, no longer fit within our long-term strategy. As such, we developed a plan to sell the business in order to allow us to more efficiently deploy management s attention and corporate resources to those areas that best leverage the core capabilities of our company. We completed the sale of this business in January 2014.

We will continue to pursue acquisitions of companies, technologies and complementary product lines that we believe will further our strategic objectives. Conversely, from time to time, we review our businesses to ensure that they are key to our strategic plans, and close or divest businesses that we determine are no longer of strategic importance. See Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations Overview) beginning on page 40, and Note 2 of the Notes to Consolidated Financial Statements beginning on page F-15, of this Annual Report on Form 10-K for additional information.

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Our Markets

We sell our products, subsystems and systems to original equipment manufacturer (OEM) and end-user customers in markets and for applications that are enabled or enhanced by the use of photonics technology, including primarily:

- *Scientific Research*. We are one of the world s leading suppliers of lasers and other photonics products to scientific researchers. For more than fifty years, we have worked closely with the research community to pioneer new applications and technologies. Today, we continue to help researchers extend the frontiers of science in a variety of research areas, including spectroscopy, ultrafast phenomena, terahertz imaging, laser-induced fluorescence, chemical analysis, materials science, light detection and ranging (LIDAR) and nonlinear optics.

- *Microelectronics*. Photonics technology addresses a number of vital applications in the microelectronics market. It is a key technology used in the manufacture of semiconductors, flat panel displays and printed circuit boards, enabling the increased functionality, shrinking device dimensions and increased component density needed for next-generation electronic products, including smartphones, tablet computers, e-readers, personal media players and digital cameras. It is also a key technology deployed in the manufacture of light emitting diodes (LEDs) to help increase brightness and reduce manufacturing costs. In addition, photonics technology enables the manufacture of solar panels with higher efficiency and at a lower cost per watt as that industry strives to make solar power more cost competitive. Our products are used in several key applications in the microelectronics market, including semiconductor lithography, wafer inspection and metrology, reticle inspection, wafer dicing and scribing, wafer and component marking, glass processing for mobile devices, printed circuit board drilling and cutting, resistor trimming, flat panel display manufacturing, LED scribing, solar panel scribing and structuring, solar cell testing and characterization, and solar cell efficiency enhancement.

- *Life and Health Sciences*. Photonics is increasingly becoming an enabling technology in the life and health sciences market. We provide products for diagnostic and analytical instrumentation, bioimaging and medical procedures. Our products are used in applications such as optical coherence tomography, multiphoton and confocal microscopy, flow cytometry, matrix-assisted laser desorption/ionization time-of-flight mass spectrometry, laser microdissection, DNA microarrays and blood analysis to enable advancements in the fields of molecular biology, proteomics and drug discovery. Our products are also used in medical applications, including precision laser surgery, dental computer-aided design/computer-aided manufacturing (CAD/CAM) scanning and medical device manufacturing.

- *Industrial*. Our lasers, optics and other photonics products are used in applications across a wide range of industries, including precision manufacturing applications, automotive safety, industrial lasers, image recording and telecommunications. The precision manufacturing applications served by our products include rapid prototyping, micromachining, heat-treating, welding and soldering, cutting, illumination, drilling, fiber optic device testing and high-precision marking and engraving.

- *Defense and Security*. The drive for more technologically advanced weapons and surveillance techniques is producing increased investment in photonics-based technologies that can remotely, rapidly and non-invasively detect threats, improve intelligence gathering, provide secure communications systems and improve the performance of weapons and countermeasures. In addition, innovative optical sensors are augmenting human vision on the battlefield, providing remote sensing, ranging and observation capabilities that offer high-resolution imaging and night vision. Our optical components and lenses are used in a wide range of advanced applications in this market, including infrared observation systems, imaging systems for manned and unmanned aircraft, driver vision enhancement (DVE) systems and targeting systems. Our photonics products are also used by aerospace and defense industry engineers to develop, assemble, test and calibrate equipment and, in some cases, are incorporated into weapon or sensor systems for applications including target recognition and acquisition, LIDAR, range finding,

missile guidance, and advanced weapons development.

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Our Operating Groups

Prior to 2013, we operated within three divisions: our Photonics and Precision Technologies (PPT) Division, our Lasers Division and our Ophir Division, which represented our reportable segments through the end of 2012. In January 2013, we reorganized our operations to create three new operating groups: our Photonics Group, our Lasers Group and our Optics Group, which have represented our reportable segments since the first quarter of 2013. The results of operations of our reportable segments for the years 2011 and 2012, which are included in the accompanying financial statements and discussed elsewhere in this Annual Report on Form 10-K, have been restated to conform to these new reportable segments.

Our Lasers Group is substantially the same as our former Lasers Division. Our Photonics Group is comprised primarily of the photonics products and technologies of our former PPT Division and our former Ophir Division. Our Optics Group is comprised primarily of the optical components and integrated solutions products and technologies of our former PPT Division and our former Ophir Division.

Photonics Group

Our Photonics Group s products and systems are sold to end users in all of our target end markets. We also sell products and subassemblies to OEM customers for integration into their systems, particularly for microelectronics applications. The products sold by this group include photonics instruments and systems, precision positioning systems and subsystems, vibration isolation systems and subsystems, optical components for research applications, optical hardware, and three-dimensional non-contact measurement sensors and equipment.

Products

The following table summarizes our Photonics Group s primary product offerings by product category, and includes representative applications for each category:

Category	Products	Representative Applications
Photonics Instruments and Systems	• Electro-optic modulators • Laser beam profilers • Laser diode controllers • Laser diode burn-in and life-test systems • Light sources • Monochromators and spectrographs	• Analysis of optical power and energy profile of laser beams • Atom trapping and cooling, including Bose-Einstein Condensates • Characterization of cosmetic and pharmaceutical products • Characterization of light emitted by lasers, light emitting diodes and broadband light sources

- Optical power and energy detectors
- Optical power and energy meters
- Photonics test systems
- Solar simulators
- Solar cell test instruments
- Spectrometers
- Tunable external cavity diode lasers
- Ultrafast laser pulse measurement systems
- Chemical composition analysis
- Colorimetry
- Lifetime testing of laser diodes
- Optical power and energy measurement for free space and fiber-directed laser light
- Solar cell characterization and measurements
- Spectroscopy
- Testing and characterization of optical fibers and passive fiber optical components

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Category	Products	Representative Applications
Vibration Isolation Systems and Subsystems	• Active vibration damping systems • Elastomeric mounts • Honeycomb and granite structures • Optical tables, support systems and accessories • Passive isolation systems • Workstations	• Foundation platforms for laser systems • Isolated platforms for semiconductor equipment • Reduction of impact of external vibration sources on high-precision research applications and manufacturing test and assembly systems • Scanning electron microscope, atomic force microscope, and optical microscope base isolation • Workstation platforms for fiber optic device fabrication • Workstation platforms for microscopy and other advanced imaging applications
Precision Positioning Devices, Systems and Subsystems	• Autocollimators • Custom multi-axis positioning systems • Fast steering mirrors • Fiber alignment stages and accessories • Hexapod positioning systems • Manual linear and rotation stages • Micrometers and adjustment screws • Motion controllers and drivers • Motorized linear and rotation stages • Motorized actuators and optical mounts • Nano-positioning and nano-focusing stages • Piezo motor actuators and stages • Precision air-bearing motion systems	• High-precision positioning for manufacturing and in-process inspection, metrology and final test applications • High-precision positioning of semiconductor wafers for metrology and fabrication • High resolution non-contact metrology for angular measurements • Laser beam stabilization and pointing • Laser system alignment and beam steering for inspection, laser processing and communications • Precision alignment in fiber optic, telecommunication and laser device assembly • Sample or sensor manipulation for imaging and microscopy • Sample sorting and sequencing for DNA research • Solar cell test and characterization • Tracking and targeting test systems for defense and security applications

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Category	Products	Representative Applications
Optics and Opto-Mechanical Components	• Beam routing and enclosing systems • Beamsplitters and polarization optics • Collimators • Filters and attenuators • Laser-to-fiber couplers • Laser optics and optical components • Optical hardware including bases, brackets, posts and rod systems • Optical mounts • Prisms and windows • Refractive beam shaper assemblies	• Analytical instrumentation for life and health sciences applications • Cell sorting for genomic research • Development and manufacturing of laser systems • Electro-optic sensors and imaging systems for defense and security applications • High-precision alignment of optical instruments • Optical measurement and communications systems • Research in physical and biological sciences • Spectroscopy • Ultrafast laser, terahertz imaging and laser fusion research
Three-Dimensional Non-Contact Measurement Equipment	• 3D sensors • 3D scanning systems	• Dental CAD/CAM scanning for computerized design and manufacturing of crowns, bridges and other dental restorations • High-precision three-dimensional non-contact measurements • In process inspection and testing in manufacturing processes

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Lasers Group

Our Lasers Group offers a broad portfolio of laser technology products and services to OEM and end-user customers in all of our target end markets. Our lasers and laser-based systems include ultrafast lasers and amplifiers, diode-pumped solid-state lasers, high-energy pulsed lasers, tunable lasers, fiber lasers and gas lasers. In addition to providing a wide range of standard and configured laser products and accessories to our end-user customers, we also work closely with our OEM customers to develop laser and laser system designs optimized for their product and technology roadmaps.

Products

The following table summarizes our primary laser and laser-based system product offerings by product category, and includes representative applications for each category:

Category	Products	Representative Applications
Ultrafast Lasers and Systems	• InSight DeepSee tunable ultrafast lasers • Spirit high repetition rate ultrafast lasers • Mai Tai® and Mai Tai DeepSee tunable ultrafast lasers • Tsunami® ultrafast lasers • Spitfire® Ace ultrafast amplifiers • Solstice® one-box ultrafast amplifiers • Inspire femtosecond optical parametric oscillators (OPOs) • TOPAS Prime automated ultrafast optical parametric amplifiers (OPAs) • femtoTrain ultra compact femtosecond oscillators	• Femtosecond spectroscopy • Medical device manufacturing • Micro-machining and other high-precision materials processing applications • Multiphoton microscopy • Supercontinuum and high harmonic generation • Terahertz imaging • Time-resolved photoluminescence • Two-photon polymerization • Ultrafast laser surgery
Fiber Lasers	• Quasar® high power UV and green hybrid fiber lasers	• Flat panel display manufacturing • Glass processing • Ceramic processing

	• LED manufacturing • Printed circuit board, flexible circuits, flip chips and high density interconnect manufacturing • Silicon wafer processing • Solar cells manufacturing

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Category	Products	Representative Applications
Diode-Pumped Solid State Q-Switched Lasers	• Talon all-in-one lasers • Mosaic all-in-one lasers • Tristar high repetition rate UV lasers • Navigator lasers • HIPPO mid-power lasers • Pulseo® high power lasers • Explorer® compact lasers • Explorer One all-in-one compact lasers • Explorer XP all-in-one compact lasers • Empower® high pulse energy lasers	• Diamond processing • Disk texturing • Electronics and semiconductor packaging manufacturing • Flat panel display manufacturing • Laser microdissection • LED wafer scribing • Matrix-assisted laser desorption/ionization • Memory yield enhancement systems • Printed circuit board (PCB) manufacturing • Pump source for ultrafast lasers • Rapid prototyping (3D printing) • Resistor trimming • Semiconductor wafer and flat panel display marking • Semiconductor wafer inspection • Silicon micromachining • Solar cell manufacturing
Diode-Pumped Solid State Continuous Wave (CW) and Quasi-CW Lasers	• Millennia® eV and Millennia Edge high power CW green lasers • MG series CW green lasers • Excelsior low power CW lasers • Vanguard quasi-CW lasers • 3900S and Matisse® CW tunable lasers	• Confocal microscopy • DNA sequencing • Flow cytometry • Image recording • Laser cooling • Materials processing

- Optical trapping
- Raman imaging
- Semiconductor wafer inspection and metrology
- Solar cell manufacturing
- Ti:Sapphire laser pumping

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Category	Products	Representative Applications
High Energy Pulsed Nd:YAG and Tunable Lasers	• Quanta-Ray® pulsed Nd:YAG lasers • Scan Series high energy optical parametric oscillators (OPOs) • Precision Scan, Cobra Stretch and Cobra tunable dye lasers • Credo high-repetition rate dye lasers	• Flat-panel display manufacturing • Laser ablation • Laser cleaning • Laser shock processing • LIDAR • Mass spectrometry • Particle imaging velocimetry combustion diagnostics • Plastic and ceramic component marking • Remote sensing • Spectroscopy
Gas Lasers	• Air-cooled argon ion lasers • Helium-Neon lasers	• Flow Cytometry • Holography • Interferometry • Lithography • Metrology • Semiconductor wafer inspection

Optics Group

Our Optics Group offers precision optics and lens assemblies, thin-film filters and coatings, replicated mirrors and ruled and holographic diffraction gratings to OEM and end-user customers in all of our target end markets.

The Optics Group also designs, develops and manufactures systems and subsystems that integrate our broad portfolio of products and technologies into solutions that meet the specific application requirements of our OEM and select end-user customers. With our expertise in the design, development and manufacture of these integrated solutions, we help our customers reduce time to market and enhance the performance of their equipment or products. We have a business team comprised of technical and operations specialists, which collaborates across our business groups to develop and provide these integrated solutions to our customers. We have used our capabilities in this area for customers in a

number of industries and applications, most notably in microelectronics applications such as semiconductor equipment manufacturing and solar cell manufacturing, and in life and health sciences applications such as flow cytometry, DNA sequencing and bioimaging.

The Optics Group also offered automated systems for advanced applications in the manufacturing of solar panels and communications and electronic devices, including microwave, optical, radio frequency (RF) and multi-chip modules, through the end of 2013. This business was sold in January 2014.

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Products

The following table summarizes our Optics Group s product offerings by product category, and includes representative applications for each category:

Category	Products	Representative Applications
Optics and Optical Components	• CO_2 laser optics • Precision laser optics for infrared, visible and ultraviolet wavelengths • Replicated mirrors • Ruled and holographic diffraction gratings • Thin-film filters and coatings	• Analytical instrumentation for life and health sciences applications • CO_2 laser cutting, drilling and welding systems • Development and manufacturing of laser systems • Electro-optic sensors and imaging systems for defense and security applications • Optical measurement and communications systems • Semiconductor lithography, wafer and reticle inspection and wafer processing • Spectroscopy
Optical Lens Assemblies	• Optical lens assemblies and elements for cooled infrared cameras • Optical lens assemblies and elements for uncooled infrared cameras • Optical lenses for infrared radiometric/thermograph systems	• Automotive safety systems • Commercial security cameras • Targeting and fire control systems • Thermal imaging and observation systems
Opto-Mechanical Subassemblies and Subsystems	• Integrated electro-opto-mechanical subsystems • Laser beam attenuators • Laser beam delivery and imaging assemblies • Objective lens systems	• Analytical instrumentation for life and health sciences applications • Laser beam stabilization for industrial metrology • Light detection and ranging • Optical coherence tomography for non-invasive diagnostics • Optical data storage

	• Semiconductor mask patterning • Semiconductor lithography, wafer and reticle inspection and wafer processing • Thin-film measurement of semiconductor wafers

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Financial information regarding our business segments and our operations by geographic area is included in Note 15 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K beginning on page F-40. A discussion of our net sales by end market and geographic area is included in Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) beginning on page 48. We discuss certain risks associated with doing business internationally in Risk Factors We face significant risks from doing business internationally on page 20.

Sales and Marketing

We market and sell our products and services through our global direct sales organization, an international network of independent distributors and sales representatives, our product catalogs and our web sites. Our global direct sales organization is comprised of teams of field sales persons, key account managers and business development managers, who work closely with product and applications specialists and other internal sales support personnel based primarily at our U.S. locations in California, Connecticut, Massachusetts, Montana, New York and Utah, and at our locations in Austria, China, France, Germany, Israel, Japan, Singapore, Taiwan and the United Kingdom. We have organized our field sales personnel, together with internal sales support personnel, into teams within each business group based on their specialized knowledge and expertise relating to specific product areas, geographies and customer groups. These sales teams are closely aligned with their respective product management, engineering and operations organizations. In addition, to support our strategic growth initiatives in the Asia-Pacific region, we have established a dedicated team of field sales personnel and internal sales support personnel, who are responsible for sales of products of all of our operating groups in that region.

We sell our products and services to end-users, OEM customers and capital equipment customers. These categories of customers require very different selling approaches and support requirements, and we have organized our sales teams to address these different requirements. Our business groups generally have certain sales personnel who are focused on serving the needs of end-user customers (primarily in the scientific research market) and other sales personnel who serve our OEM and capital equipment customers. Our OEM and capital equipment customers often have unique technical requirements and manufacturing processes, and may request specific system, subsystem or component designs. Sales of our subsystem and capital equipment products often involve complex program management and long sales cycles, and require close cooperation between sales, operations and engineering personnel as well as collaboration across many of our product lines and areas of knowledge and expertise. As such, we have developed teams of key account managers and business development managers to serve the unique requirements of these OEM and capital equipment customers.

We also actively market and sell our products in certain markets through independent sales representatives and distributors. We have written agreements with substantially all of our representatives and distributors. In some cases we have granted representatives and distributors exclusive authorization to sell certain of our products in a specific geographic area. These agreements generally have terms of one year which automatically renew on an annual basis, and are generally terminable by either party for convenience following a specified notice period. Most distributor agreements are structured to provide distributors with sales discounts below the list price. Representatives are generally paid commissions for sales of products. No single independent representative or distributor accounted for more than 5% of our net sales in 2013.

We also market our standard products through our comprehensive web sites and our product catalog, The Newport Resource®, particularly for the scientific research market. Our web sites provide customers with access to the latest information regarding our products, technical/tutorial and application related materials, sales information and literature and information request forms, and our Newport.com web site also features an online store, giving customers the ability to purchase a majority of our standard products. Our web sites are widely used by our customers to review information about our technologies, products and services. Our product catalog provides detailed product information as well as extensive technical and applications data. The Newport Resource is published in English, French, German, Japanese and Mandarin. New product supplements for each catalog are also distributed between publications. We also publish and distribute a variety of sales literature and product brochures which focus on specific products, applications and end markets.

We operate a Technology and Applications Center (TAC) at our Irvine, California headquarters. The TAC is staffed with experienced photonics researchers who develop innovative ways to utilize our lasers and other photonics products together in leading-edge research applications such as solar cell testing and characterization, multiphoton microscopy, ultrafast spectroscopy and laser micro-fabrication. The TAC produces application notes

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and kits for these applications, publishes technical papers in scientific and technical journals, and provides our research and development teams with ideas for new products and product enhancements. We also operate Applications Laboratories at our Santa Clara, California and Rankweil, Austria facilities, which provide support to our global sales and marketing team by conducting feasibility studies with prospective customers material processing applications using our lasers and photonics products. These laboratories are staffed with experienced laser material processing engineers, and demonstrate the performance of our products and integrated solutions in a wide range of advanced laser applications. We believe that the TAC and the Applications Laboratories reinforce our position as a technology leader in the photonics industry, and that they serve as important sales tools by performing actual experiments to demonstrate how our products will perform in our customers applications.

Research and Product Development

We continually seek to improve our technological leadership position through internal research, product development and licensing, and acquisitions of complementary technologies. As of February 28, 2014, we had approximately 330 employees engaged in research and development. We continually work to enhance our existing products and to develop and introduce innovative new products to satisfy the needs of our customers. In addition, we regularly investigate new ways to combine components manufactured by our various operations to produce innovative technological solutions for the markets we serve.

Total research and development expenses were $52.5 million, or 9.4% of net sales, in 2013; $52.7 million, or 8.8% of net sales, in 2012; and $45.3 million, or 8.3% of net sales, in 2011. Research and development expenses attributable to our Photonics Group were $21.0 million, or 9.1% of net sales by that group, in 2013; $20.9 million, or 8.8% of net sales by that group, in 2012; and $16.7 million, or 8.2% of net sales by that group, in 2011. Research and development expenses attributable to our Lasers Group were $17.8 million, or 10.7% of net sales by that group, in 2013; $19.0 million, or 10.4% of net sales by that group, in 2012; and $17.8 million, or 9.3% of net sales by that group, in 2011. Research and development expenses attributable to our Optics Group were $13.7 million, or 8.4% of net sales by that group, in 2013; $12.8 million, or 7.3% of net sales by that group, in 2012; and $10.8 million, or 7.2% of net sales by that group, in 2011.

We are committed to product development and expect to continue our investment in this area in the future. We believe that the continual development or acquisition of innovative new products will be critical to our future success. Failure to develop, or introduce on a timely basis, new products or product enhancements that achieve market acceptance could have a material effect on our business, operating results or financial condition.

Customers

We sell our products to thousands of customers worldwide, in a wide range of end markets, primarily scientific research, microelectronics (which is comprised primarily of semiconductor capital equipment customers), defense and security, life and health sciences and industrial manufacturing and other commercial markets. We believe that our customer diversification minimizes our dependence on any single industry or group of customers. In 2013, no single customer represented 10% or more of our consolidated net sales. In certain of our end markets, particularly the microelectronics market, a limited number of customers account for a significant portion of our sales to those markets. We believe that our relationships with these customers and our other key customers are good. However, if our key customers discontinue or reduce their business with us, or suffer downturns in their businesses, it could have a significant negative impact on our financial results on a short-term basis. If we lose business from key customers and we are unable to sufficiently expand our customer base to replace the lost business or to reduce our cost structure accordingly, it would have a long-term negative impact on our business and results of operations.

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Competition

The markets we serve are intensely competitive and characterized by rapidly changing technology. A small number of competitors have strong positions in certain of these markets. The products and systems developed and manufactured by each of our operating groups serve all of our targeted end markets. The following table summarizes our primary competitors for our principal product categories:

Product Category	Primary Competitors	
Diffraction Gratings	Headwall Photonics, Inc.	Optometrics Corporation
	Horiba, Ltd. (Horiba Jobin Yvon)	Spectrogon AB
Lasers	Coherent, Inc.	Jenoptik AG
	GSI Group, Inc. (Excel Technology)	Rofin-Sinar Technologies, Inc.
	IDEX Corporation (CVI Melles Griot)	Sacher Lasertechnik GmbH
	IPG Photonics, Inc.	Toptica Photonics AG
	JDS Uniphase Corporation	Trumpf Group
Laser Optics	II-VI Incorporated	Sigma Koki Co., Ltd.
	Corning, Inc. (Tropel)	Sumitomo Electric Industries, Ltd.
	Edmund Optics, Inc.	Thorlabs, Inc.
	Excelitas Technologies (Qioptiq)	Umicore
	IDEX Corporation (CVI Melles Griot)	Zygo Corporation
	Jenoptik AG	
Light Sources and Spectroscopy Instrumentation	Abet Technologies, Inc.	Sciencetech, Inc.
	Andor Technology plc	Solar Light Company, Inc.
	Horiba, Ltd. (Horiba Jobin Yvon)	Spectral Products
	Halma plc (Ocean Optics)	Thorlabs, Inc.
	Photon Technology International, Inc.	
	Roper Industries (Princeton Instruments/Acton Research)	
Optical Filters	II-VI Incorporated	JDS Uniphase Corporation

	Chroma Technology Corp. Ferroperm Optics A/S IDEX Corporation (Semrock)	Materion Corporation (Barr Associates) Omega Optical, Inc.
Optical Hardware and Opto-Mechanical Subassemblies and Subsystems	Corning, Inc. (Tropel) Edmund Optics, Inc. IDEX Corporation (CVI Melles Griot) Jenoptik AG	Excelitas Technologies (Qioptiq) Sigma Koki Co., Ltd. Thorlabs, Inc. Zygo Corporation
Optics for Thermal Imaging	Corning, Inc. (Netoptix) BAE Systems (OASYS) Danaher Corporation (Janos Technology) Excelitas Technologies (Qioptiq)	General Dynamics (Axsys) Raytheon ELCAN Optical Technologies Temek Optics, Ltd. Umicore
Photonics Instruments	CINOGY Technologies GmbH Coherent, Inc. Data Ray Inc. Duma Optronics Ltd. Gentec Electro Optics, Inc. Halma plc (Labsphere)	IDEX Corporation (CVI Melles Griot) Metrolux Ltd. Picometrix, LLC Sciencetech, Inc. Thorlabs, Inc. Yelo Limited
Precision Positioning Devices, Systems and Subsystems	Aerotech Inc. Danaher Corporation (Dover) Haag-Streit AB (Möller-Wedel) Parker Hannifin Corporation	PI miCos GmbH Rockwell Automation, Inc. (Anorad) Sigma Koki Co., Ltd. Thorlabs, Inc.

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Product Category	Primary Competitors	
Three-Dimensional Non-Contact Measurement Equipment	3M Company (ESPE)	Keyence Corporation
	3 Shape A/S	Micro-Epsilon
	Align Technology, Inc. (Cadent)	Renishaw plc
	Dental Wings, Inc.	Sirona Dental GmbH (Sirona Dental Systems)
	Faro Technologies, Inc.	
	Institut Straumann AG	
Vibration Isolation Systems and Subsystems	AMETEK, Inc. (TMC)	Kinetic Systems, Inc.
	Herzan, LLC	Thorlabs, Inc.

In certain of our product lines, particularly our precision motion systems, infrared optics, opto-mechanical subassembly, lasers, and laser diode test system product lines, we also face competition from certain of our existing and potential customers who have developed or may develop their own systems, subsystems and components.

We believe that the primary competitive factors in our markets are:

- product features and performance;
- quality and reliability of products;
- pricing and availability;
- customer service and support;
- breadth of product portfolio;
- customer relationships;

- understanding of customer applications;

- ability to manufacture and deliver products on a timely basis;

- ability to customize products to customer requirements; and

- ability to offer complete integrated solutions to OEM customers.

We believe that we currently compete favorably with respect to these factors. However, we may not be able to compete successfully in the future against existing or new competitors.

We compete in various markets against a number of companies, some of which have longer operating histories, greater name recognition and significantly greater technical, financial, manufacturing and marketing resources than we do, and some of which may have lower material costs than ours due to their control over sources of components and raw materials. In addition, some of these companies have long established relationships with our customers and potential customers in our markets. In addition to current competitors, we believe that new competitors, some of whom may have substantially greater financial, technical and marketing resources than we do, will seek to provide products to one or more of our markets in the future. Such future competition could harm our business.

Intellectual Property and Proprietary Rights

Our success and competitiveness depends to an extent upon our ability to protect our proprietary technology. We protect our technology by controlling access to our proprietary information and by maintaining confidentiality agreements with our employees, consultants, customers and suppliers, and, in some cases, through the use of patents, trademark registrations and licenses. We currently maintain approximately 250 patents worldwide, and we have approximately 90 additional patent applications pending. These patents and patent applications cover various aspects of products in many of our key product categories, particularly our laser products. We also have trademarks registered worldwide. We will continue to actively pursue applications for new patents and trademarks as we deem appropriate.

It is possible that, despite our efforts, other parties may use, obtain or copy our products and technology. Policing unauthorized use of our products and technology is difficult and time consuming. The steps we take to

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protect our rights may not prevent misappropriation of our products or technology. This is particularly the case in certain countries, such as the People s Republic of China, where the intellectual property laws or the nature of the legal system in those countries may not afford our intellectual property rights the same protection as the laws of the United States. We have in the past and may in the future initiate claims or litigation against third parties for infringement of our proprietary rights, which claims could result in costly litigation and the diversion of our technical and management personnel.

In addition, infringement, invalidity, right to use or ownership claims by third parties have been asserted against us in the past and may be asserted against us in the future. We expect that the number and significance of these matters will increase as our business expands. In particular, the laser industry is characterized by a very large number of patents, many of which are of questionable validity and some of which appear to overlap with other issued patents. As a result, there is a significant amount of uncertainty in the industry regarding patent protection and infringement. Any claims of infringement brought by third parties could result in protracted and costly litigation, and we could become subject to damages for infringement, or to an injunction preventing us from selling one or more of our products or using one or more of our trademarks. Such claims could also result in the necessity of obtaining a license relating to one or more of our products or current or future technologies, which may not be available on commercially reasonable terms or at all. Any intellectual property litigation and the failure to obtain necessary licenses or other rights or develop substitute technology could have a material adverse effect on our business, financial condition and results of operations.

Manufacturing

We manufacture instruments, components, subassemblies and systems at U.S. facilities located in Irvine and Santa Clara, California; Stratford, Connecticut; Bozeman, Montana; and North Logan, Utah; and at facilities in Wuxi, China; Beaune-la Rolande, France; Brigueuil, France; and Jerusalem, Israel. We manufacture lasers and laser systems at our facilities in Santa Clara, California; Rankweil, Austria; and Stahnsdorf, Germany. We manufacture optical components in Irvine, California; Franklin and North Andover, Massachusetts; Rochester, New York; Jerusalem, Israel; and Bucharest, Romania. In addition, we subcontract all or a portion of the manufacture of various products and components, such as laser power supplies, optics, optical meters and certain lower-complexity laser systems, to a number of third-party subcontractors and contract manufacturers located worldwide.

Our manufacturing processes are diverse and consist of: purchasing raw materials, principally stainless steel, aluminum, glass and other optical substrates; processing the raw materials into components, subassemblies and finished products; purchasing components, assembling and testing components and subassemblies; and, for selected products, assembling the subassemblies and components into integrated subsystems and systems. We primarily design and manufacture our products internally, although in some cases, we purchase completed products from certain third-party suppliers and resell those products through our distribution channels. Most of these completed products are produced to our specifications and carry one of our product brands.

We currently procure various components and materials, such as the sheet steel used in some of our vibration isolation tables, the laser diodes and laser crystals used in certain of our laser products, and raw materials used in some of our infrared optics, from single or limited sources, due to unique component designs or materials characteristics as well as certain quality and performance requirements needed to manufacture our products. In some of these cases, the number of available suppliers is limited by the existence of patents covering the components or materials. In addition, we manufacture certain components internally, and there are no readily available third-party suppliers of these components. If single-sourced components were to become unavailable in adequate amounts at acceptable quality levels or were to become unavailable on terms satisfactory to us, we would be required to purchase comparable components from other sources. While we believe that we would be able to obtain comparable replacement components from other sources in a timely manner, if we were unable to do so, our business, results of operations or financial condition could be adversely affected.

In addition, we obtain some of the critical capital equipment we use to manufacture certain of our products from sole or limited sources due to the unique nature of the equipment. In some cases, such equipment can only be serviced by the manufacturer or a very limited number of service providers due to the complex and specialized nature of the equipment. If service and/or spare parts for such equipment become unavailable, such equipment could be rendered inoperable, which could cause delays in the production of our products, and could require us to procure alternate equipment, if available, which would likely involve long lead times and significant additional cost.

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Backlog

Our consolidated backlog of orders totaled $225.2 million at December 28, 2013 and $202.2 million at December 29, 2012. As of December 28, 2013, $189.9 million of our consolidated backlog was scheduled to be shipped on or before January 3, 2015. Orders for many of the products we sell to OEM customers, which comprise a significant portion of our sales, are often subject to rescheduling without penalty or cancellation without penalty other than reimbursement of certain labor and material costs. In addition, because we manufacture a significant portion of our standard catalog products for inventory, we often make shipments of these products upon or within a short time period following receipt of an order. As a result, our backlog of orders at any particular date may not be an accurate indicator of our sales for succeeding periods.

Employees

As of February 28, 2014, we had approximately 2,400 employees worldwide. We believe that our relationships with our employees are good.

Government Regulation

Product Safety Regulation

Our lasers and laser-based systems are subject to the laser radiation safety regulations of the Radiation Control for Health and Safety Act administered by the Center for Devices and Radiological Health of the United States Food and Drug Administration. Among other things, these regulations require a laser manufacturer to file new product and annual reports, to maintain quality control and sales records, to perform product testing, to distribute appropriate operating manuals, to incorporate certain design and operating features into lasers sold to end-users and to certify and label each laser sold to end-users as one of four classes (based on the level of radiation from the laser that is accessible to users). Various warning labels must be affixed and certain protective devices installed depending on the class of product. The Center for Devices and Radiological Health is empowered to seek fines and other remedies for violations of the regulatory requirements. We are also subject to comparable laser safety regulations with regard to laser products sold in Europe and other regions. We believe that we are currently in compliance with these regulations.

Environmental Regulation

Our operations are subject to various federal, state and local regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. In the United States, we are subject to the federal regulation and control of the Environmental Protection Agency (EPA), and comparable authorities exist in other countries. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. Future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on our business, results of operations or financial condition.

Although we believe that our safety procedures for using, handling, storing and disposing of such materials comply with the standards required by all applicable laws and regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. We have been, and may in the future be, subject to claims by employees or third parties alleging such contamination or injury, and could be liable for damages, which liability could exceed the amount of our liability insurance coverage (if any) and the financial resources of our business.

Spectra-Physics former facility located in Mountain View, California is an EPA-designated Superfund site and is subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, which we acquired in 2004 and merged into Newport in 2007, along with several other entities with facilities located near the Mountain View, California facility, were identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. Spectra-Physics and the other Responsible Parties entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater impact. The site is mature, and investigations and remediation efforts by the Responsible Parties have

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been ongoing for approximately 30 years. However, we may be subject to additional remediation obligations in the future if the EPA and the California Regional Water Quality Control Board determine that the site has generated additional environmental contamination. In addition to our remediation obligations, we may be liable for property damage or personal injury claims relating to this site. While we are not aware of any claims at this time, such claims could be made against us in the future. In connection with our purchase of Spectra-Physics, Thermo Fisher Scientific, Inc., formerly known as Thermo Electron Corporation, agreed to indemnify us, subject to certain conditions, for costs of remediation that are incurred and third party claims that are made prior to July 16, 2014, which arise from the releases of hazardous substances at or from the Mountain View facility and are subject to remediation under the cost-sharing agreement. However, our ultimate costs of remediation and other potential liability are difficult to predict, this indemnity may not cover all liabilities relating to this site while it remains in effect, and following the expiration of this indemnity, we will be responsible for these remediation costs. If significant costs or other liabilities relating to this site arise in the future and are either not covered by this indemnity or arise after this indemnity expires, our business, financial condition and results of operations could be adversely affected.

Governmental entities at all levels are continuously enacting new environmental regulations, and it may initially be difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the requirements for compliance with such regulations as they are enacted. For example, the European Union has enacted the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) for implementation in each European Union member country. RoHS regulates the use of certain hazardous substances in certain products, and WEEE requires the collection, reuse and recycling of waste from certain products. Effective January 2013, RoHS was recast to expand the scope of equipment subject to the directive and impose new compliance requirements, and most European Union member states implemented the recast directive during 2013. WEEE was also recast to expand the scope of equipment subject to the directive and impose increased combined reuse/recycling and collection targets, among other revisions, and European Union member states were due to implement the recast directive by February 2014. While many of our products are not subject to RoHS and WEEE requirements at this time, certain of our products sold in these countries are or will become subject to these requirements. We will continue to monitor RoHS and WEEE guidance in individual jurisdictions to determine our responsibilities. In some instances, we are not directly responsible for compliance with RoHS and WEEE because certain of our products are currently outside the scope of the directives. However, because the scope of the directives continues to expand, we will likely be directly or contractually subject to certain provisions of such regulations in the case of many of our products. In addition, certain of our customers, particularly OEM customers whose end products may be subject to these directives, may require that the products we supply to them comply with these directives. Further, final legislation from individual jurisdictions that have not yet implemented the directives may impose different or additional responsibilities upon us. We are also aware of similar legislation that is currently in force or being considered in various states within the United States, as well as other countries, such as Japan, China and South Korea. These regulations may require us to redesign our products or source alternative components to ensure compliance with applicable requirements, for example by mandating the use of different types of materials in certain components. Any such redesign or alternative sourcing may increase the cost of our products, adversely impact the performance of our products, add greater testing lead-times for product introductions, or in some cases limit the markets for certain products.

Our failure to comply with any such regulatory requirements or related contractual obligations could result in our being directly or indirectly liable for costs, fines or penalties and third-party claims, and could jeopardize our ability to conduct business in certain countries.

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Availability of Reports

We make available free of charge on our web site at www.newport.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We will also provide electronic or paper copies of such reports free of charge, upon request made to our Corporate Secretary at 1791 Deere Avenue, Irvine, California 92606. All such reports are also available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials filed by us with the SEC at the SEC s public reference room located at 100 F Street, NE, Washington, DC 20549. Information regarding operation of the SEC s public reference room can be obtained by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

The following is a summary of certain risks we face in our business. They are not the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business operations. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in our other filings with the Securities and Exchange Commission.

Our financial results are difficult to predict, and if we fail to meet our financial guidance or the expectations of investors, potential investors and/or securities analysts, the market price of our common stock will likely decline significantly.

Our financial results in any given quarter have fluctuated and will likely continue to fluctuate. These fluctuations are typically unpredictable and can result from numerous factors including:

- fluctuations in our customers capital spending, industry cyclicality (particularly in the semiconductor equipment industry), market seasonality (particularly in the scientific research market), levels of government funding available to our customers (particularly in the scientific research, defense and life and health sciences markets) and other economic conditions within the markets we serve;

- demand for our products and the products sold by our customers;

- the level of orders within a given quarter and preceding quarters;

- the timing and level of cancellations and delays of orders in backlog for our products;

- the timing of product shipments within a given quarter;
- variations in the mix of products we sell;
- changes in our pricing practices or in the pricing practices of our competitors or suppliers;
- our timing in introducing new products;
- market acceptance of any new or enhanced versions of our products;
- timing of new product introductions by our competitors;
- timing and level of scrap and warranty expenses;
- the availability, quality and cost of components and raw materials we use to manufacture our products;
- our ability to manufacture a sufficient quantity of our products to meet customer demand;
- changes in our effective tax rates;
- changes in our capital structure, including cash, marketable securities and debt balances, and changes in interest rates;

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- changes in bad debt expense based on the collectability of our accounts receivable;
- timing, type, and size of acquisitions and divestitures, and related expenses and charges;
- fluctuations in currency exchange rates;
- gains and losses related to derivative instruments;
- our expense levels;
- impairment of goodwill and amortization of intangible assets; and
- fees and expenses relating to litigation.

We may in the future choose to change prices, increase spending, or add or eliminate products in response to actions by competitors or in an effort to pursue new market opportunities. These actions may also adversely affect our business and operating results and may cause our results in a given period to be lower than our results in previous periods.

In addition, we often recognize a substantial portion of our sales in the last month of the quarter. Thus, variations in timing of sales, particularly for our higher-priced, higher-margin products, can cause significant fluctuations in our quarterly sales, gross margin and profitability. Orders expected to ship in one period could shift to another period due to changes in the timing of customers purchase decisions, rescheduled delivery dates requested by our customers, or manufacturing or logistics delays. Our operating results for a particular quarter or year may be adversely affected if our customers, particularly our largest customers, cancel or reschedule orders, or if we cannot fill orders in time due to unexpected delays in manufacturing, testing, shipping and product acceptance. Also, we base our manufacturing plans on our forecasted product mix for the quarter. If the actual product mix varies significantly from our forecast, we may not be able to fill some orders during that quarter, which would result in delays in the shipment of our products and could shift sales to a subsequent period. In addition, our expenses for any given quarter are typically based on expected sales, and if sales are below expectations in any given quarter, the adverse impact of the shortfall on our operating results may be magnified by our limited ability to adjust spending quickly to compensate for the shortfall.

Due to these and other factors, we believe that quarter-to-quarter comparisons of our results of operations, or any other similar period-to-period comparisons, may not be reliable indicators of our future performance. In any period, our results may be below the expectations of market analysts and investors, which would likely cause the trading price of our common stock to drop.

Our operating results may be adversely affected by unfavorable economic and market conditions.

Decreased consumer confidence, volatile corporate operating results, reduced capital spending, lower research and defense budgets, and the effects of reduced availability of credit, have in the recent past led to reduced demand and increased price competition for our products, increased risk of excess and obsolete inventory and higher overhead costs as a percentage of revenue, and could do so in the future. Weakness in our end markets could negatively impact our revenue, gross margin and operating margin, and consequently have a material adverse effect on our business, financial condition and results of operations.

Our worldwide sales to customers in the scientific research, defense and life and health sciences markets rely to a large extent on government funding for research and defense-related programs. Any decline in government funding as a result of reduced budgets in connection with fiscal austerity measures or other causes would likely result in reduced sales of our products that are purchased either directly or indirectly with government funding, which would have an adverse impact on our results of operations. In particular, the United States federal budget for fiscal 2014 reflects defense and research spending levels that, while higher than spending levels during the 2013 sequestration cuts, are generally lower than pre-2013 levels, and could result in continued reduced demand in these markets. Any additional significant government spending cuts in the U.S. or any of our other global markets would likely reduce the demand for our products.

Additionally, uncertainty in government fiscal policy may have a similar adverse impact on the demand for our products. For example, the difficulties faced by the U.S. Congress in recent years in agreeing on comprehensive,

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long-term solutions for the country s budget concerns created national and global uncertainty over the magnitude and impact of spending cuts or tax increases that might be enacted. The initial reaction to the anticipated fiscal cliff in 2012 and the sequestration-related spending cuts that were in effect during 2013 caused a significant amount of uncertainty in our U.S. customer base in the scientific research, defense and life and health sciences markets while such cuts remained in effect, and resulted in reduced demand for our products in those years, as customers delayed making purchases while they determined the magnitude of the impact of those cuts on their respective budgets. Further, any future spending cuts or tax increases in the United States, and any future uncertainty over U.S. fiscal policy, will likely negatively impact U.S. economic activity as a whole, which could also impact the economic health of other regions and reduce the demand for our products in our other global markets.

Further, as a result of the acquisitions of Ophir and High Q, our dependence upon the European market as a significant revenue source has increased. In the event the economies of European Union countries decline as a result of ongoing turmoil in the European financial markets over the uncertain repayment of debt obligations by various European Union members, or for any other reason, this decline could have a material adverse effect on our business, financial condition and results of operations.

Ongoing concerns regarding the global availability of credit also may make it more difficult for our customers to raise capital, whether debt or equity, to finance their projects and purchases of capital equipment. Delays in our customers ability to obtain such financing, or the unavailability of such financing, could adversely affect sales of our products and systems, particularly high-value lasers and systems, and therefore harm our business and operating results.

All of the factors discussed above would likely have a material adverse effect on our business, results of operations and financial condition.

We face significant risks from doing business internationally.

Our business is subject to risks inherent in conducting business internationally. For the years ended December 28, 2013, December 29, 2012 and December 31, 2011, our international revenues accounted for approximately 61.0%, 59.1% and 55.8%, respectively, of total net sales, with a substantial portion of international sales originating in Europe, Japan and China. We expect that international revenues will continue to account for a significant percentage of total net sales for the foreseeable future, and that in particular, the proportion of our sales to Asian customers will continue to increase. Additionally, we have substantial international manufacturing, sales and administrative operations, with significant facilities and employee populations in Austria, China, France, Germany, Israel, Japan and Romania. Our international operations expose us to various risks, which include:

- adverse changes or instability in the political or economic conditions in countries or regions where we manufacture or sell our products;

- challenges of administering our diverse business and product lines globally;

- the actions of government regulatory authorities, including embargoes, export restrictions, tariffs, currency controls, trade restrictions and trade barriers, license requirements, environmental and other regulatory requirements and other rules and regulations applicable to the manufacture, import and export of our products, all of which are complicated and potentially conflicting, often require significant investments in cost, time and resources for compliance, and may impose strict and severe penalties for noncompliance;

- greater risk of violations of anti-corruption laws by our employees, sales representatives, distributors or other agents;

- longer accounts receivable collection periods;

- overlapping, differing or more burdensome tax structures;

- adverse currency exchange rate fluctuations;

- reduced or inconsistent protection of intellectual property;

- more complex and burdensome labor laws and practices in countries where we have employees;

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- difficulties in staffing and managing each of our individual international operations; and

- increased risk of exposure to civil unrest, terrorist and military activities.

In particular, as a result of our acquisition of Ophir, we have significant facilities and operations and a considerable number of employees in Israel. A number of our products are manufactured in facilities located in Israel. The Middle East remains a volatile region, and the future of peace efforts between Israel and neighboring countries remains extremely uncertain. Any armed conflicts or significant political instability in the region is likely to negatively affect business conditions and could significantly disrupt our operations in Israel, which would negatively impact our business. Further, many of our employees in Israel are subject to being called for active duty under emergency circumstances. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time, and our operations in Israel could be disrupted by the absence of one or more key employees or a significant number of other employees for a significant period of time. Any such disruption could adversely affect our business.

Further, fluctuations in currency exchange rates could affect the sales price in local currencies of our products in international markets, potentially making our products less price competitive. Such exchange rate fluctuations could also increase the costs and expenses of our non-U.S. operations when translated into U.S. dollars or require us to modify our current business practices. If we experience any of the risks associated with international business, our business, financial condition and results of operations could be significantly harmed.

We are dependent in part on the semiconductor capital equipment market, which is volatile and unpredictable.

A significant portion of our current and expected future business comes from sales of products and subsystems to manufacturers of semiconductor fabrication, inspection and metrology equipment. The semiconductor capital equipment market has historically been characterized by sudden and severe cyclical variations in product supply and demand. The timing, severity and duration of these market cycles are difficult to predict, and we may not be able to respond effectively to these cycles. For example, this market experienced a severe down-cycle from mid-year 2007 to mid-year 2009 and again from mid-2011 to late 2013, which in each case had a significant negative impact on our operating results. The continued cyclicality of this market limits our ability to predict our business prospects or financial results in this market.

During industry downturns, our revenues from this market may decline suddenly and significantly. Our ability to rapidly and effectively reduce our cost structure in response to such downturns is limited by the fixed nature of many of our expenses in the near term and by our need to continue our investment in next-generation product technology and to support and service our products. In addition, due to the relatively long manufacturing lead times for some of the products and subsystems we sell to this market, we may incur expenditures or purchase raw materials or components for products we cannot sell. Accordingly, downturns in the semiconductor capital equipment market may materially harm our business, financial condition and operating results. Conversely, when upturns in this market occur, we may have difficulty rapidly and effectively increasing our manufacturing capacity to meet sudden increases in customer demand. If we fail to do so we may lose business to our competitors and our relationships with our customers may be harmed.

A limited number of customers account for a significant portion of our overall sales to the microelectronics market and our sales of optics and lens assemblies to the defense market, and if we lose any of these customers or they significantly curtail their purchases of our products, our results of operations would be harmed.

Our sales to the microelectronics market (which is comprised primarily of semiconductor capital equipment customers) constituted 23.4%, 23.3% and 28.3% of our consolidated net sales for the years 2013, 2012 and 2011, respectively. We rely on a limited number of customers for a significant portion of our sales to this market. Our top five customers in this market comprised approximately 55.5%, 53.4% and 59.7% of our sales to this market for the years 2013, 2012 and 2011, respectively, with one customer making up a substantial portion of such percentage in each of these years. No single customer in this market comprised 10% or more of our consolidated net sales in 2013, 2012 or 2011. If any of our principal customers discontinues its relationship with us, replaces us as a vendor for certain products or suffers downturns in its business, our business and results of operations could be harmed

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significantly. In addition, because a relatively small number of companies dominate the semiconductor equipment portion of this market, and because those companies rarely change vendors in the middle of a product s life cycle, it may be particularly difficult for us to replace these customers if we lose their business.

The microelectronics market is characterized by rapid technological change, frequent product introductions, changing customer requirements and evolving industry standards. Because our customers face uncertainties with regard to the growth and requirements of these markets, their products and components may not achieve, or continue to achieve, anticipated levels of market acceptance. If our customers are unable to deliver products that gain market acceptance, it is likely that these customers will not purchase our products or will purchase smaller quantities of our products. We often invest substantial resources in developing our products and subsystems in advance of significant sales of these products and subsystems to such customers. A failure on the part of our customers products to gain market acceptance, or a failure of the microelectronics market to grow would have a significant negative effect on our business, financial condition and results of operations.

Additionally, we generate a significant amount of revenue from sales of infrared optics and lens assemblies to a limited number of customers in the defense market. Typically, these customers purchase products utilizing prime contracts or subcontracts under large, long-term government defense programs. Although long-term, these programs and subcontracts will ultimately expire or may be terminated prior to expiration under certain circumstances. Upon expiration or termination, our customers may not elect to enter into additional contracts with us, or the government programs under which these contracts were issued may also end. In the event that any of these contracts terminates or expires and is not renewed and we fail to replace it with a comparable revenue source, our business, financial condition and results of operations will be adversely affected.

Difficulties in finding suitable acquisition targets and in successfully completing and integrating our acquisitions could adversely impact our business.

We have acquired and will continue to acquire businesses, and our ability to successfully identify suitable acquisition targets, complete acquisitions on acceptable terms, and efficiently and effectively integrate our acquired businesses into our organization is critical to our growth. We may not be able to identify target companies that meet our strategic objectives or successfully negotiate and complete acquisitions with companies we have identified on acceptable terms. Additionally, the credit agreement we entered into in connection with our secured credit facility only permits us to make acquisitions under certain circumstances, and restricts our ability to incur additional indebtedness, which limits to some extent our ability to make such acquisitions and investments. Further, the process of integrating acquired companies into our operations requires significant resources and is time consuming, expensive and disruptive to our business. We may not realize the benefits we anticipate from these acquisitions because of the following significant challenges:

- potentially incompatible cultural differences between the two companies;

- incorporating the acquired company s technology and products into our current and future product lines, and successfully generating market demand for these expanded product lines;

- potential additional geographic dispersion of operations;

- the diversion of our management s attention from other business concerns;

- the difficulty in achieving anticipated synergies and efficiencies;

- the difficulty in integrating disparate operational and information systems;

- unanticipated liabilities associated with the acquired company;

- the difficulty in leveraging the acquired company s and our combined technologies and capabilities across our product lines and customer base;

- potential sales disruptions as a result of integrating the acquired company s sales channels with our sales channels; and

- our ability to retain key customers, suppliers and employees of an acquired company.

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Our failure to successfully identify suitable target companies, negotiate and complete acquisitions, or achieve the anticipated benefits of any past or future acquisition or to successfully integrate and/or manage the operations of the companies we acquire could harm our business, results of operations and cash flows.

Additionally, we may incur significant charges in future quarters to reflect additional costs associated with past acquisitions, including asset impairment charges and other costs related to divestiture of acquired assets or businesses. Such charges could also include impairment of goodwill associated with past acquisitions. For example, 2012 sales by our former Ophir Division were below the levels that we had originally forecasted. As a result of those sales levels and other factors, in the course of our annual evaluation of the goodwill and other intangible assets associated with our reporting units in the fourth quarter of 2012, we determined that goodwill and certain intangible and other assets associated with our former Ophir Division were impaired. We therefore recorded an impairment charge of $130.9 million to write down the goodwill and certain intangible and other assets associated with that division. We believe that the assumptions we use in evaluating the goodwill associated with our business are reasonable; however, we may be required to recognize goodwill impairment charges in the future as a result of subsequent changes to the factors underlying such assumptions, and as a result of the criteria we are required to utilize in assessing whether impairment has occurred.

The terms of our secured credit facility impose significant financial obligations and risks upon us, limit our ability to take certain actions, and could discourage a change in control.

On July 18, 2013, we entered into a credit agreement with certain lenders, pursuant to which we obtained a new secured credit facility (credit facility) to refinance our prior credit facility. The credit facility consists of a revolving credit facility of $275 million with a term of five years. The credit agreement also provides us with the option to increase the aggregate principal amount of our loans in the form of additional revolving loans or a separate tranche of term loans, in an aggregate amount that does not exceed $50 million, in each case subject to certain terms and conditions contained in the credit agreement. Our ability to borrow funds under the credit facility is subject to certain conditions, including compliance with certain covenants and the continued accuracy of certain representations and warranties. Our obligations under the credit facility are collateralized by a security interest in substantially all of our assets and the assets of our U.S. subsidiaries, as well as a pledge of certain shares we hold in our non-U.S. subsidiaries.

The credit agreement requires compliance with certain financial covenants, including maintaining specific financial ratios. These ratios are based in part on our Consolidated Adjusted EBITDA, as defined in the credit agreement. Our ability to continue to meet these financial ratios and tests will be dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. In the event that we are unable to generate the levels of Consolidated Adjusted EBITDA required to maintain compliance with such financial covenants, our borrowing capacity under the credit facility will be reduced, and we may be required to dedicate a significant portion of our cash flow from operations and other capital resources to reduce our indebtedness under the credit facility, thereby reducing our ability to fund working capital, capital expenditures, research and development and other cash requirements.

The credit agreement and related documents also contain covenants that limit our ability to take certain actions, including, among other things, our ability to:

- materially change the nature of our business;

- enter into transactions with affiliates;
- incur or guarantee indebtedness;
- pay dividends or repurchase stock;
- merge, dissolve, liquidate or consolidate with or into another entity;
- consummate asset sales, acquisitions or mergers;
- prepay certain other indebtedness; or
- make investments.

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These covenants restrict our ability to engage in or benefit from these actions, thereby limiting our flexibility in planning for, or reacting to, changes and opportunities in the markets in which we compete, such as limiting our ability to engage in mergers and acquisitions. This could place us at a competitive disadvantage.

The credit agreement contains customary events of default, including:

- failure to make required payments;
- failure to comply with certain agreements or covenants;
- failure to pay, or default permitting acceleration of, certain other indebtedness;
- certain events of bankruptcy and insolvency; and
- failure to pay certain judgments.

Our ability to repay any amounts owed under the credit facility will depend upon our future cash balances. The amount of cash available for repayment of these amounts will depend on our usage of our existing cash balances and our operating performance and ability to generate cash flow from operations in future periods, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. We cannot provide any assurances that we will generate sufficient cash flow from operations to service our debt obligations. Any failure to repay these obligations as they become due would result in an event of default under the credit agreement.

If an event of default occurs, the lenders may end their obligation to make loans to us under the credit facility, and the lenders may declare any outstanding indebtedness under the credit agreement immediately due and payable. In such case, we would need to obtain additional financing or significantly deplete our available cash, or both, in order to repay this indebtedness. Any additional financing may not be available on reasonable terms or at all, and significant depletion of our available cash could harm our ability to fund our operations or execute our broader corporate objectives.

Further, if we were unable to repay outstanding indebtedness following an event of default, then in addition to other available rights and remedies, the lenders could initiate foreclosure proceedings on substantially all of our assets. Any such foreclosure proceedings or other rights and remedies successfully implemented by the lenders in an event of default would likely have a material adverse effect on our business, financial condition and results of operations.

Many of the markets and industries that we serve are subject to rapid technological change, and if we fail to introduce new and innovative products or improve our existing products, our business and results of operations will be negatively affected.

Many of our markets are characterized by rapid technological advances, evolving industry standards, shifting customer needs, new product introductions and enhancements, and the periodic introduction of disruptive technology that displaces current technology due to a combination of price, performance and reliability. As a result, many of the products in our markets can become outdated quickly and without warning. We depend, to a significant extent, upon our ability to enhance our existing products, to anticipate and address the demands of the marketplace for new and improved and disruptive technologies, either through internal development or by acquisitions, and to be price competitive. If we or our competitors introduce new or enhanced products, it may cause our customers to defer or cancel orders for our existing products. If we or our competitors introduce disruptive technology that displaces current technology, existing product platforms or lines of business from which we generate significant revenue may be rendered obsolete. In addition, because certain of our markets experience severe cyclicality in capital spending, if we fail to introduce new products in a timely manner we may miss market upturns, or may fail to have our products or subsystems designed into our customers products. We may not be successful in acquiring, developing, manufacturing or marketing new products and technologies on a timely or cost-effective basis. If we fail to adequately introduce new, competitive products and technologies on a timely basis, our business, financial condition and results of operations would be harmed.

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We offer products for multiple industries and must face the challenges of supporting the distinct needs of each of the markets we serve.

We offer products for a number of markets. Because we operate in multiple markets, we must work constantly to understand the needs, standards and technical requirements of many different applications within these industries, and must devote significant resources to developing different products for these industries. Product development is costly and time consuming. We must anticipate trends in our customers industries and develop products before our customers products are commercialized. If we do not accurately predict our customers needs and future activities, we may invest substantial resources in developing products that do not achieve broad market acceptance. Our decision to continue to offer products to a given market or to penetrate new markets is based in part on our judgment of the size, growth rate and other factors that contribute to the attractiveness of a particular market. If our product offerings in any particular market are not competitive or our analyses of a market are incorrect, our business and results of operations would be harmed.

Uncertainty in the adoption or growth of emerging applications could reduce the revenue growth we expect to generate from these applications.

We are constantly investing in products for emerging applications, and we expect to generate increasingly significant revenue levels from sales of products for these applications. For example, we have developed ultrafast lasers for ophthalmic surgery, infrared optics for thermal imaging cameras, precision motion subsystems for equipment used to manufacture and inspect 450 mm semiconductor wafers, and three-dimensional dental CAD/CAM scanners for manufacturing dental restorations. These applications are evolving, and the extent to which they achieve widespread adoption or significant growth is uncertain. Many factors may affect the viability of widespread adoption or growth of these applications, including their cost-effectiveness, performance and reliability compared to alternatives. If these applications or our products for these applications are not widely adopted or fail to grow as we project, we will not generate the revenue growth we anticipate from sales of our products for these emerging applications, and our results of operations could be harmed.

Because the sales cycle for some of our products is long and difficult to predict, and certain of our orders are subject to rescheduling or cancellation, we may experience fluctuations in our operating results.

Many of our capital equipment, system and subsystem products are complex, and customers for these products require substantial time to qualify our products and make purchase decisions. In addition, some of our sales to defense and security customers are under major defense programs that involve lengthy competitive bidding and qualification processes. These customers often perform, or require us to perform, extensive configuration, testing and evaluation of our products before committing to purchasing them, which can require a significant upfront investment by us. The sales cycle for these products from initial contact through shipment varies significantly, is difficult to predict and can last more than one year. If we fail to anticipate the likelihood, costs, or timing associated with sales of capital equipment, system and subsystem products, our business and results of operations would be harmed.

The orders comprising our backlog are generally subject to rescheduling without penalty or cancellation without penalty other than reimbursement for certain labor and material costs. We have from time to time experienced order rescheduling and cancellations that have caused our revenues in a given period to be materially less than would have been expected based on our backlog at the beginning of the period. If we experience such rescheduling and/or cancellations in the future, our operating results will fluctuate from period to period.

If we are delayed in introducing our new products into the marketplace, our operating results will suffer.

Because many of our products are sophisticated and complex, we may experience delays in introducing new products or enhancements to our existing products. If we do not introduce our new products or enhancements into the marketplace in a timely fashion, our customers may choose to use our competitors products. In addition, because certain of our OEM customers (particularly in the semiconductor equipment market) rarely change vendors during a product life cycle, if we fail to timely introduce new products and have them designed into our customers new products at the beginning of such cycle, we may be foreclosed from selling those products until their introduction of a next-generation product. As such, our inability to introduce new or enhanced products in a timely manner could cause our business and results of operations to suffer.

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We face substantial competition, and if we fail to compete effectively, our operating results will suffer.

The markets for our products are intensely competitive, and we believe that competition from both new and existing competitors will increase in the future. We compete in several specialized markets, against a limited number of companies in each market. We also face competition in some of our markets from our existing and potential customers who have developed or may develop products that are competitive to ours, or who engage subcontract manufacturers or system integrators to manufacture products or systems on their behalf. Some of our existing and potential competitors are more established, enjoy greater name recognition and possess greater financial, technological and marketing resources than we do, and some may have lower material costs than ours due to their control over sources of components and raw materials. Other competitors are small and highly specialized firms that are able to focus on only one aspect of a market. We compete on the basis of product performance, features, quality, reliability, the breadth of our product portfolio and price and on our ability to manufacture and deliver our products on a timely basis. We may not be able to compete successfully in the future against existing or new competitors. In addition, competitive pressures may force us to reduce our prices, which would negatively affect our operating results. If we do not respond adequately to competitive challenges, our business and results of operations would be harmed.

If we fail to protect our intellectual property and proprietary technology, we may lose our competitive advantage.

Our success and ability to compete depend in large part upon protecting our proprietary technology. We rely on a combination of patent, trademark and trade secret protection and nondisclosure agreements to protect our proprietary rights. The steps we have taken may not be sufficient to prevent the misappropriation of our intellectual property, particularly in countries outside the United States, where the laws may not protect our proprietary rights as fully as in the United States. Patent and trademark laws and trade secret protection may not be adequate to deter third party infringement or misappropriation of our patents, trademarks and similar proprietary rights. In addition, patents issued to us may be challenged, invalidated or circumvented. Our rights granted under those patents may not provide competitive advantages to us, and the claims under our patent applications may not be allowed. We have in the past and may in the future be subject to or may initiate interference proceedings in the United States Patent and Trademark Office, which can demand significant financial and management resources. The process of seeking patent protection can be time consuming and expensive and patents may not be issued from currently pending or future applications. Moreover, our existing patents or any new patents that may be issued may not be sufficient in scope or strength to provide meaningful protection or any commercial advantage to us. We may initiate claims or litigation against third parties for infringement of our proprietary rights in order to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors, which claims could result in costly litigation, the diversion of our technical and management personnel and the assertion of counterclaims by the defendants, including counterclaims asserting invalidity of our patents. We will take such actions where we believe that they are of sufficient strategic or economic importance to us to justify the cost. For example, in 2012 we filed a lawsuit against Lighthouse Photonics Incorporated asserting infringement of certain of our patents by that company s laser products, which litigation is ongoing. If we are unsuccessful at effectively protecting our intellectual property, our business, financial condition and results of operations could be harmed.

On September 16, 2011, the Leahy-Smith America Invents Act (the Leahy-Smith Act) was signed into law. The Leahy-Smith Act includes a number of significant changes to the U.S. patent laws, such as changing from a first to invent to a first inventor to file system, establishing new procedures for challenging patents and establishing different methods for invalidating patents. The U.S. Patent and Trademark Office is still in the process of implementing regulations relating to these changes, and the courts have yet to address many of the new provisions of the Leahy-Smith Act. Some of these changes or potential changes may not be advantageous to us, and it may become more difficult to obtain adequate patent protection or to enforce our patents against third parties. While we cannot predict the impact of the Leahy-Smith Act at this time, these changes or potential changes could increase the costs and uncertainties surrounding the prosecution of our patent applications and adversely affect our ability to protect our intellectual property and proprietary technology.

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We have experienced, and may in the future experience, intellectual property infringement claims, which could be costly and time consuming to defend and may produce outcomes that could adversely impact our business and results of operations.

We have from time to time received claims from third parties alleging that we are infringing certain trademarks, patents or other intellectual property rights held by them. Such infringement claims have in the past and may in the future result in litigation. For example, in 2008, Graywire, LLC filed a patent infringement case against us and other companies alleging infringement of certain optical device manufacturing patents, which case is currently pending. Any such litigation could be protracted and costly, and we could become subject to damages for infringement, or to an injunction preventing us from selling one or more of our products or using one or more of our trademarks. Such claims could also result in the necessity of obtaining a license relating to one or more of our products or current or future technologies, which may not be available on commercially reasonable terms or at all. Any intellectual property litigation and the failure to obtain necessary licenses or other rights or develop substitute technology may divert management s attention from other matters and could have a material adverse effect on our business, financial condition and results of operations. In addition, the terms of our customer contracts typically require us to indemnify the customer in the event of any claim of infringement brought by a third party based on our products. Any claims of this kind may have a material adverse effect on our business, financial condition or results of operations.

Our international sales and operations may be adversely impacted by export controls.

Our products and technology are subject to international export regulations in the various countries where they are manufactured or developed. For example, exports of our products and technology developed or manufactured in the U.S. are subject to export controls imposed by the U.S. Government and administered by the U.S. Departments of Commerce and State. Similar export regulations govern exports of our products and technology developed or manufactured in certain other countries, including Austria, France, Germany, Israel and Romania. In certain instances, these regulations may require obtaining licenses from the administering agency prior to exporting products or technology to international locations or foreign nationals, including foreign nationals employed by us in the United States and abroad. For products and technology subject to the U.S. Export Administration Regulations administered by the U.S. Department of Commerce s Bureau of Industry and Security, the requirement for a license is dependent on the type and end use of the product and technology, the final destination and the identity and nationality of the end user. Virtually all exports from the United States of defense articles subject to the International Traffic in Arms Regulations, administered by the Department of State s Directorate of Defense Trade Controls, require a license. The Israeli Ministry of Industry and Trade and the Israeli Ministry of Defense administer similar export regulations and license requirements, which apply to many of our products and technology developed or manufactured in Israel. Obtaining export licenses can be difficult and time-consuming, and we may not be successful in obtaining them. Failure to obtain export licenses to enable product and technology exports could reduce our revenue, harm our relationships with our customers and could adversely affect our business, financial condition and results of operations. Compliance with export regulations may also subject us to additional fees and costs. The absence of comparable export restrictions on competitors in other countries may adversely affect our competitive position. In addition, if we or our international representatives or distributors fail to comply with any of these export regulations, we or they could be subject to civil and criminal, monetary and non-monetary penalties, disruptions to our business, restrictions on our ability to export products and technology and damage to our reputation, and our business and results of operations could be harmed.

If we are unable to attract new employees and retain and motivate existing employees, our business and results of operations will suffer.

Our ability to maintain and grow our business is directly related to the service of our employees in each area of our business. Our future performance will be directly tied to our ability to hire, train, motivate and retain qualified personnel. Competition for personnel in the technology marketplace is intense. We have from time to time in the past experienced attrition in certain key positions, and we expect to continue to experience this attrition in the future. The absence of incentive plan bonuses and equity award vesting as a result of not meeting certain financial performance targets could adversely affect our ability to attract new employees and to retain and motivate our existing

employees. If we are unable to hire sufficient numbers of employees with the experience and skills we need or to retain and motivate our existing employees, our business and results of operations would be harmed.

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Our reliance on sole source and limited source suppliers and service providers could result in delays in production and distribution of our products.

We obtain some of the materials and components used to build our products, systems and subsystems, such as the sheet steel used in some of our vibration isolation tables, the crystals and semiconductor laser diodes used in certain of our laser products and certain raw materials used for our thermal imaging and high-power laser optics, from single or limited sources due to unique component designs as well as specialized quality and performance requirements needed to manufacture our products. If our components or raw materials are unavailable in adequate amounts at acceptable quality levels or are unavailable on satisfactory terms, we may be required to purchase them from alternative sources, if available, which could increase our costs and cause delays in the production and distribution of our products. If we do not obtain comparable replacement components from other sources in a timely manner, our business and results of operations will be harmed. Many of our suppliers require long lead times to deliver the quantities of components that we need. If we fail to accurately forecast our needs, or if we fail to obtain sufficient quantities of components that we use to manufacture our products, then delays or reductions in production and shipment of our products could occur, which would harm our business and results of operations.

In addition, we obtain some of the critical capital equipment we use to manufacture certain of our products from sole or limited sources due to the unique nature of the equipment. In some cases, such equipment can only be serviced by the manufacturer or a very limited number of service providers due to the complex and specialized nature of the equipment. If service and/or spare parts for such equipment become unavailable, such equipment could be rendered inoperable, which could cause delays in the production of our products, and could require us to procure alternate equipment, if available, which would likely involve long lead times and significant additional cost, and could harm our results of operations.

Our products could contain defects, which would increase our costs and harm our business.

Many of our products, especially our laser products, opto-mechanical subassemblies and precision positioning systems, are inherently complex in design and, in some cases, require ongoing regular maintenance. Further, the manufacture of these products often involves a highly complex and precise process and the utilization of specially qualified components that conform to stringent specifications. As a result of the technical complexity of these products, design defects, changes in our or our suppliers manufacturing processes or the inadvertent use of defective or nonconforming materials by us or our suppliers could adversely affect our manufacturing yields and product reliability. This could in turn harm our business, operating results, financial condition and customer relationships.

We provide warranties for our products, and we accrue allowances for estimated warranty costs at the time we recognize revenue for the sale of the products. The determination of such allowances requires us to make estimates of product return rates and expected costs to repair or replace the products under warranty. We establish warranty reserves based on historical warranty costs for our products. If actual return rates or repair and replacement costs differ significantly from our estimates, our results of operations could be negatively impacted.

Our customers may discover defects in our products after the products have been fully deployed and operated under peak stress conditions. In addition, some of our products are combined with products from other suppliers, which may contain defects. As a result, should problems occur, it may be difficult to identify the source of the problem. If we are unable to identify and fix defects or other problems, we could experience, among other things:

- loss of customers;
- increased costs of product returns and warranty expenses;
- increased costs required to analyze and mitigate the defects or problems;
- damage to our reputation;
- failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources; or
- legal action by our customers.

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The occurrence of any one or more of the foregoing factors could seriously harm our business, financial condition and results of operations.

Our products are subject to potential product liability claims which, if successful, could adversely affect our results of operations.

Many of our products may be hazardous if not operated properly or if defective. In addition, some of our products, such as certain ultrafast lasers, are used in medical applications where malfunctions could result in serious injury. We are exposed to significant risks for product liability claims if property damage, personal injury or death results from the use of our products. We may experience material product liability losses in the future. We currently maintain insurance against product liability claims. However, our insurance coverage may not continue to be available on terms that we accept, if at all. This insurance coverage also may not adequately cover liabilities that we incur. Further, if our products are defective, we may be required to recall or redesign these products. A successful claim against us that exceeds our insurance coverage level, or any claim or product recall, could have a material adverse effect on our business, financial condition and results of operations.

Our failure to successfully manage the transition of certain of our manufacturing operations to international locations and to contract manufacturers could harm our business.

As part of our ongoing cost-reduction efforts, we continue to relocate the manufacture of certain of our existing product lines and subassemblies to, and initiate the manufacture of certain new products in, our facilities in Wuxi, China, Jerusalem, Israel and Bucharest, Romania and selected contract manufacturers in Asia. If we are unable to successfully manage the relocation or initiation of the manufacture of these products, our business and results of operations could be harmed.

In particular, manufacturing new products in and transferring product lines to our lower-cost manufacturing locations and our contract manufacturers facilities often requires us to transplant complex manufacturing equipment and processes across a large geographical distance and to train a completely new workforce concerning the use of this equipment and these processes. If we are unable to manage this transfer and training smoothly and comprehensively, we could suffer manufacturing and supply chain delays, excessive product defects, harm to our results of operations and our reputation with our customers, and loss of customers. We also may not realize the cost and tax advantages that we currently anticipate from locating operations in China, Israel and Romania. For example, we are experiencing rising material, labor and shipping costs and rapidly changing regulations in China.

Additionally, qualifying contract manufacturers and commencing volume production are expensive and time-consuming activities, and there is no guarantee we will continue to do so successfully. Further, our reliance on contract manufacturers reduces our control over the assembly process, quality assurance, production costs and material and component supply for our products. If we fail to manage our relationship with our contract manufacturers, or if any of the contract manufacturers experience financial difficulty, or delays, disruptions, capacity constraints or quality control problems in their operations, our ability to ship products to our customers could be impaired and our competitive position and reputation could be harmed. Further, if we or our contract manufacturers are unable to negotiate with suppliers for reduced component costs, our operating results could be harmed.

In addition, our contract manufacturers may terminate our agreements with them upon prior notice to us or immediately for reasons such as if we become insolvent, or if we fail to perform a material obligation under the agreements. If we are required to change contract manufacturers or assume internal manufacturing operations for any reason, including the termination of one of our contracts, we will likely suffer manufacturing

and shipping delays, lost revenue, increased costs and damage to our customer relationships, any of which could harm our business.

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We are required to evaluate our internal control over financial reporting each year, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Pursuant to rules and regulations promulgated by the SEC under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management each year on our internal control over financial reporting. This report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. This report must also contain a statement that our auditors have issued an attestation report on such internal controls. Management s assessment of internal control over financial reporting requires management to make subjective judgments, some of which are in areas that may be open to interpretation. As such, our auditors may not agree with our assessments.

If we are unable to assert each year that our internal control over financial reporting is effective, or if our auditors are unable to attest that our internal control over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial reports, and we may be unable to file such reports in a timely manner, which would have an adverse effect on our stock price. In addition, if any unidentified material weaknesses were to result in fraudulent activity and/or a material misstatement or omission in our financial statements, we could suffer losses and be subject to civil and criminal penalties and litigation, all of which could have a material adverse effect on our business, financial condition and results of operations.

Compliance with environmental regulations and potential environmental liabilities could adversely affect our financial results.

Our operations are subject to various federal, state, local and international regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. In the United States, we are subject to the federal regulation and control of the EPA, and we are subject to comparable authorities in other countries. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. Future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on our business, results of operations or financial condition.

Although we believe that our safety procedures for using, handling, storing and disposing of such materials comply with the standards required by state and federal laws and regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. We have been, and may in the future be, subject to claims by employees or third parties alleging such contamination or injury, and could be liable for damages, which liability could exceed the amount of our liability insurance coverage (if any) and the resources of our business.

Spectra-Physics former facility located in Mountain View, California is an EPA-designated Superfund site and is subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, which we acquired in 2004 and merged into Newport in 2007, along with several other entities with facilities located near the Mountain View, California facility, were identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. Spectra-Physics and the other Responsible Parties entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater impact. The site is mature, and investigations and remediation efforts by the Responsible Parties have been ongoing for approximately 30 years. However, we may be subject to additional remediation obligations in the future if the EPA and the California Regional Water Quality Control Board determine that the site has generated additional environmental contamination. In addition to our remediation obligations, we may be liable for property damage or personal injury claims relating to this site. While we are not aware of any claims at this time, such claims could be made

against us in the future. In connection with our purchase of Spectra-Physics, Thermo Fisher Scientific, Inc., formerly known as Thermo Electron Corporation, agreed to indemnify us, subject to certain conditions, for costs of remediation that are incurred and third party claims that are made prior to July 16, 2014, which arise from the releases of hazardous substances at or from the Mountain View facility and are subject to remediation under the cost-sharing agreement. However, our ultimate costs of remediation and other potential liabilities are difficult to predict, this indemnity may not cover all liabilities relating to this site while it remains in

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effect, and following the expiration of this indemnity, we will be responsible for these remediation costs. If significant costs or other liability relating to this site arise in the future and are either not covered by this indemnity or arise after this indemnity expires, our business, financial condition and results of operations could be adversely affected.

The environmental regulations that we are subject to include a variety of federal, state, local and international environmental regulations that restrict the use and disposal of materials used in the manufacture of our products or require design changes or recycling of our products. If we fail to comply with any present or future regulations, we could be subject to future liabilities, the suspension of manufacturing or a prohibition on the sale of products we manufacture. In addition, such regulations could restrict our ability to equip our facilities or could require us to acquire costly equipment, or to incur other significant expenses to comply with environmental regulations, including expenses associated with the recall of any non-compliant product and the management of historical waste.

Governmental entities at all levels are continuously enacting new environmental regulations, and it is initially difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the requirements for compliance with such regulations as they are enacted. For example, the European Union has enacted the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) for implementation in each European Union member country. RoHS regulates the use of certain hazardous substances in certain products, and WEEE requires the collection, reuse and recycling of waste from certain products. Effective January 2013, RoHS was recast to expand the scope of equipment subject to the directive and impose new compliance requirements, and most European Union member states implemented the recast directive during 2013. WEEE was also recast to expand the scope of equipment subject to the directive and impose increased combined reuse/recycling and collection targets, among other revisions, and European Union member states were due to implement the recast directive by February 2014. Certain of our products sold in these countries are or will become subject to RoHS and WEEE requirements. We will continue to monitor RoHS and WEEE guidance in individual jurisdictions to determine our responsibilities. In some instances, we are not directly responsible for compliance with RoHS and WEEE because certain of our products are currently outside the scope of the directives. However, because the scope of the directives continues to expand, we will likely be directly or contractually subject to certain provisions of such regulations in the case of many of our products. In addition, certain of our customers, particularly OEM customers whose end products may be subject to these directives, may require that the products we supply to them comply with these directives. Further, final legislation from individual jurisdictions that have not yet implemented the directives may impose different or additional responsibilities upon us. We are also aware of similar legislation that is currently in force or being considered in various states within the United States, as well as other countries, such as Japan, China and South Korea. These regulations may require us to redesign our products or source alternative components to ensure compliance with applicable requirements, for example by mandating the use of different types of materials in certain components. Any such redesign or alternative sourcing may increase the cost of our products, adversely impact the performance of our products, add greater testing lead-times for product introductions, or in some cases limit the markets for certain products. Our failure to comply with any of such regulatory requirements or contractual obligations could result in our being directly or indirectly liable for costs, fines or penalties and third-party claims, and could jeopardize our ability to conduct business in certain countries.

New regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.

In August 2012, the SEC adopted a new rule requiring disclosures of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured by public companies. The new rule requires companies to verify and disclose whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. The first disclosure report is due on May 31, 2014, relating to the calendar year of 2013. The due diligence activities required to determine the source of certain minerals used in our products are time consuming and may result in significant costs. Due to the size and complexity of our supply chain, we face challenges in verifying the origins of the minerals used in our products. Further, the new rule could affect the availability in sufficient quantities and at competitive prices of certain minerals used in the manufacture of our products, including tantalum, tin, gold and tungsten. There may be only a limited number of sources of conflict-free minerals, which could result in increased material and component

costs, as well as additional costs associated with potential changes to our products, processes or sources of supply. If we are unable to sufficiently verify the origin of the minerals used in our products through the due

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diligence procedures that we implement, our reputation could be harmed. In addition, we may not be able to satisfy customers who require that our products be certified as conflict-free, which could place us at a competitive disadvantage.

Difficulties with our global information technology system could harm our business.

Any failure or malfunctioning of our global information technology system, errors or misuse by system users, difficulties in migrating standalone systems to our centralized systems, or inadequacy of the system in addressing the needs of our operations, could disrupt our ability to timely and accurately manufacture and ship products, which could have a material adverse effect on our business, financial condition and results of operations. Any such failure, errors, misuse or inadequacy could also disrupt our ability to timely and accurately process, report and evaluate key operations metrics and key components of our results of operations, financial position and cash flows. Any such disruptions would likely divert our management and key employees attention away from other business matters. Any disruptions or difficulties that may occur in connection with our global information technology system could also adversely affect our ability to complete important business processes, such as the evaluation of our internal control over financial reporting and attestation activities pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

In connection with our daily business transactions, we store data about our business, including certain customer data, on our global information technology systems. While our systems are designed with security measures to prevent unauthorized access, third parties may gain unauthorized access to our systems. This unauthorized access could take the form of intentional misconduct by computer hackers, employee error, employee malfeasance or otherwise. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information, in order to gain access to our information technology system for the purpose of sabotage, or to access our data, including our and our customers intellectual property and other confidential business information. Because the techniques used to obtain unauthorized access to information technology systems evolve frequently and generally are not recognized until successful, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in disruption to our business, misappropriation or loss of data, loss of confidence in us by our customers, damage to our reputation, legal liability and a negative impact on our sales.

Natural disasters or power outages could disrupt or shut down our operations or those of our contract manufacturers, which would negatively impact our operations.

We are headquartered, and have significant operations, in the State of California and other areas where our operations are susceptible to damages from earthquakes, floods, fire, loss of power or water supplies, or other similar contingencies. Our contract manufacturers operations are also subject to these occurrences, such as the severe flooding that periodically occurs in Thailand. We currently have business continuation plans for our global information technology systems and for most of our operations and facilities, as well as disaster recovery procedures for our remaining operations and facilities. Despite these contingency plans and procedures, if any of our facilities or those of our contract manufacturers were to experience a catastrophic loss or significant power outages, it could disrupt our operations, delay production, shipments and revenue, and result in large expenses to repair or replace the facility, any of which would harm our business. We are predominantly uninsured for losses and interruptions caused by earthquakes.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters is located at 1791 Deere Avenue, Irvine, California 92606. We lease this facility under a lease expiring in February 2022. Our primary operations for each of our operating groups are located in the following facilities:

Operating Group	Primary Facility Locations	Approximate Facility Size
Photonics	Irvine, California	148,000 square feet
	Stratford, Connecticut	32,000 square feet
	Bozeman, Montana	21,000 square feet
	North Logan, Utah	15,000 square feet
	Santa Clara, California	13,000 square feet
	Beaune-la Rolande, France	86,000 square feet
	Jerusalem, Israel	44,000 square feet
	Brigueuil, France	44,000 square feet
	Wuxi, China	30,000 square feet
Lasers	Santa Clara, California	126,000 square feet
	Rankweil, Austria	29,000 square feet
	Stahnsdorf, Germany	12,000 square feet
Optics	Irvine, California	85,000 square feet
	Rochester, New York	58,000 square feet
	Franklin, Massachusetts	56,000 square feet
	North Andover, Massachusetts	27,000 square feet
	Jerusalem, Israel	36,000 square feet
	Bucharest, Romania	30,000 square feet
	Wuxi, China	12,000 square feet

Certain of the facilities shown in the table above are shared by our operating groups and corporate functions. We own portions of our Rochester, New York, Beaune-la Rolande, France and Jerusalem, Israel facilities, and we own our Brigueuil, France facility. We lease all of our other primary manufacturing facilities, as well as a number of other facilities worldwide for administration, sales and/or service, under leases with expiration dates ranging from 2014 to 2022. We believe that our facilities are adequate for our current needs and that, if required, we will be able to extend or renew our leases, or locate suitable substitute space, on commercially reasonable terms as our leases expire. We also believe that suitable additional space will be available on commercially reasonable terms in the future to accommodate expansion of our operations.

ITEM 3. LEGAL PROCEEDINGS

Hudson et al. v. Spectra-Physics, Inc. et al.

In November 2010, two former employees of Spectra-Physics, Linda Pope and Yvette Flores, together with their children, Tia Pope Hudson and Mark Flores, filed a complaint against Spectra-Physics and us in the Superior Court for Santa Clara County, California. Plaintiffs alleged that between 1975 and 1985 they were harmed by exposure to toxic substances at Spectra-Physics, and that Spectra-Physics failed to warn them about dangers associated with the substances and failed to implement adequate safeguards to protect them from the substances.

In June 2013, the court granted our motion for summary judgment of Yvette Flores claims on the grounds that they were barred by the exclusivity of the State of California s workers compensation system. In July 2013, we reached an agreement with Mark Flores to settle his claims. In September 2013, we entered into a Settlement Agreement and Release with Mark Flores documenting the specifics of the settlement. The settlement amounts were

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paid in 2013 from coverage by applicable insurance policies. As such, this settlement did not have any net impact on our income, cash flows or stockholders equity. An Order of Dismissal was filed in December 2013 with respect to Mark Flores claims, ending his case against us and Spectra-Physics.

In November 2012, we reached an agreement with Linda Pope and Tia Pope Hudson to settle all claims related to their portion of the suit. The settlement amount was paid in February 2014 from coverage by applicable insurance policies. As such, this settlement did not have any net impact on our income, cash flows or stockholders equity. The remainder of the case against us and Spectra-Physics was dismissed with prejudice in February 2014.

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. Except as described above, we currently are not a party to any other legal proceedings, the adverse outcome of which, in management s opinion, individually or in the aggregate, would have a material adverse effect on our results of operations, financial position or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

Our common stock is traded on the NASDAQ Global Select Market under the symbol NEWP. As of February 28, 2014, we had 785 common stockholders of record based upon the records of our transfer agent, which do not include beneficial owners of common stock whose shares are held in the names of various securities brokers, dealers and registered clearing agencies. The following table reflects the high and low sales prices of our common stock for each quarterly period during the last two fiscal years:

December 28, 2013	$ 18.49	$ 14.29
September 28, 2013	16.78	13.75
June 29, 2013	17.21	12.81
March 30, 2013	17.10	12.87
December 29, 2012	13.30	10.42
September 29, 2012	13.52	10.65
June 30, 2012	18.34	10.97
March 31, 2012	19.50	13.77

Dividends

We did not declare any dividends on our common stock during 2013 or 2012. We do not have any present plans to pay cash dividends in the foreseeable future; however, our Board of Directors will periodically review this issue in the future based on our financial position, operating results, cash needs and investment opportunities, as well as any changes in the tax treatment of dividends. The terms of the senior secured credit facility that we entered into in July 2013 permit us to pay dividends during the term of such facility, subject to certain conditions and limitations.

Purchases of Equity Securities

We made no purchases of our equity securities during the fourth quarter of the year ended December 28, 2013.

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Stock Performance Graph

The following graph compares the cumulative total stockholder return on $100 invested in our common stock for the five years ended December 28, 2013, with the cumulative total return on $100 invested in each of (i) the Nasdaq Market Index, and (ii) our peer group. The graph assumes all investments were made at market value on January 3, 2009 and the reinvestment of all dividends.

The peer group reflected in the graph represents a combination of all companies comprising the Morningstar Scientific & Technical Instruments Industry Group Index and the Morningstar Semiconductor Equipment & Materials Industry Group Index, published by Zacks Investment Research, Inc., with these indices weighted two-thirds (2/3) and one-third (1/3), respectively. A listing of the companies comprising each index is available from us by written request to our Corporate Secretary.

COMPARISON OF FIVE-YEAR CUMULATIVE RETURN AMONG

NEWPORT CORPORATION, NASDAQ MARKET INDEX AND PEER GROUP

The material in this performance graph is not soliciting material and is not deemed filed with the SEC and is not to be incorporated by reference in any filing of Newport under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

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ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K and in our annual reports that have been filed for the prior years presented.

	For the Year Ended (1)				
(In thousands, except per share data and percentages)	**December 28, 2013**	**December 29, 2012 (2)**	**December 31, 2011 (3)**	**January 1, 2011**	**January 2, 2010 (4)**
CONSOLIDATED STATEMENTS OF OPERATIONS:					
Net sales	$ 560,054	$ 595,346	$ 545,054	$ 479,787	$ 366,989
Cost of sales	322,341	334,758	305,325	274,491	224,387
Gross profit	237,713	260,588	239,729	205,296	142,602
Selling, general and administrative expenses	149,183	159,347	140,636	112,754	112,177
Research and development expense	52,524	52,714	45,270	39,278	36,948
Loss (gain) on sale of assets and related costs (5)	4,725	(166)		542	4,355
Impairment charges (6)		130,853			360
Operating income (loss)	31,281	(82,160)	53,823	52,722	(11,238)
Recovery of note receivable and other amounts related to previously discontinued operations, net (7)			619		101
Foreign currency translation gain from dissolution of subsidiary (8)			7,198		
Gain on sale of investments (9)		6,248			
Gain (loss) on extinguishment of debt (10)	(3,355)		(582)		328
Interest and other expense, net	(6,490)	(8,559)	(10,550)	(8,481)	(8,564)
Income (loss) before income taxes	21,436	(84,471)	50,508	44,241	(19,373)
Income tax provision (benefit) (11)	5,698	5,479	(29,154)	3,128	(1,967)
Net income (loss)	15,738	(89,950)	79,662	41,113	(17,406)
Net income (loss) attributable to non-controlling interest	137	(527)	(46)		
Net income (loss) attributable to Newport Corporation	$ 15,601	$ (89,423)	$ 79,708	$ 41,113	$ (17,406)
Net income (loss) per share attributable to Newport Corporation:					
Basic	$ 0.40	$ (2.35)	$ 2.13	$ 1.12	$ (0.48)
Diluted	$ 0.39	$ (2.35)	$ 2.06	$ 1.09	$ (0.48)
Shares used in computation of income (loss) per share:					
Basic	39,010	38,133	37,407	36,647	36,175
Diluted	39,558	38,133	38,673	37,726	36,175
Percentage of net sales:					
Gross profit	42.4%	43.8%	44.0%	42.8%	38.9%
Selling, general and administrative expenses	26.6%	26.8%	25.8%	23.5%	30.6%
Research and development expense	9.4%	8.8%	8.3%	8.2%	10.1%

Operating income (loss)	5.6%	(13.8)%	9.9%	11.0%	(3.1)%
Net income (loss)	2.8%	(15.1)%	14.6%	8.5%	(4.7)%
Net income (loss) attributable to Newport Corporation	2.8%	(15.0)%	14.6%	8.5%	(4.7)%

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(In thousands, except worldwide employment figures)	As of or for the Year Ended December 28, 2013	December 29, 2012	December 31, 2011	January 1, 2011	January 2, 2010
BALANCE SHEET INFORMATION:					
Cash, restricted cash and marketable securities	$ 64,234	$ 100,372	$ 72,855	$ 200,184	$ 141,923
Working capital	$ 198,280	$ 209,842	$ 178,598	$ 288,650	$ 236,510
Total assets	$ 565,229	$ 620,961	$ 764,069	$ 556,390	$ 493,407
Short-term borrowings	$ 4,861	$ 32,985	$ 45,149	$ 12,468	$ 11,056
Long-term borrowings (includes borrowings under capital leases)	$ 84,263	$ 151,564	$ 179,008	$ 123,198	$ 122,636
Stockholders equity of Newport Corporation	$ 326,968	$ 289,432	$ 370,258	$ 295,459	$ 254,636
MISCELLANEOUS STATISTICS:					
Common shares outstanding at year end	39,394	38,402	37,634	36,909	36,316
Average worldwide employment	2,441	2,468	2,116	1,687	1,683
Sales per employee	$ 229	$ 241	$ 258	$ 284	$ 218
Total stockholders equity per diluted share	$ 8.27	$ 7.59	$ 9.57	$ 7.83	$ 7.04

(1) We use a 52/53-week accounting fiscal year. Our fiscal year ends on the Saturday closest to December 31, and our fiscal quarters end on the Saturday that is generally closest to the end of each corresponding calendar quarter. Fiscal year 2013 (referred to herein as 2013) ended on December 28, 2013, fiscal year 2012 (referred to herein as 2012) ended on December 29, 2012, fiscal year 2011 (referred to herein as 2011) ended on December 31, 2011, fiscal year 2010 (referred to herein as 2010) ended on January 1, 2011 and fiscal year 2009 (referred to herein as 2009) ended on January 2, 2010. All fiscal years presented consisted of 52 weeks.

(2) On January 13, 2012, we acquired all of the outstanding capital stock of ILX Lightwave Corporation for an aggregate purchase price of $9.0 million, and on October 10, 2012, we acquired substantially all of the assets of Advanced Vibration Technologies, Inc. (a corporation doing business under the trade name of Vistek) for an aggregate purchase price of $2.5 million. Our results of operations for 2012 included the results of operations of these businesses from the respective closing dates of the acquisitions.

(3) On July 29, 2011, we acquired all of the capital stock of High Q Technologies GmbH for an aggregate purchase price of $18.5 million, and on October 4, 2011, we acquired all of the outstanding capital stock of Ophir Optronics Ltd. for an aggregate purchase price of $242.3 million. Our results of operations for 2011 included the results of operations of these businesses from the respective closing dates of the acquisitions.

(4) On July 4, 2009, we entered into an asset exchange transaction with Oclaro, Inc. (Oclaro) in which we acquired substantially all of the assets of the New Focus business. The purchase price was paid by the transfer to Oclaro of our diode laser business, as described in footnote (5) below, and the payment of $3.0 million in cash. Our results of operations for 2009 included the results of operations of the New Focus business from the closing date of the acquisition.

(5) During the third quarter of 2013, we developed a plan to sell our advanced packaging systems business and, based on negotiations for the sale of this business that occurred during the second half of 2013, we considered the assets and liabilities of this business as held for sale as of December 28, 2013. We completed the sale of this business in January 2014 for a price of $6.0 million, consisting of $5.35 million in cash and an unsecured note receivable of $0.65 million. We incurred $0.4 million in transaction costs. The net book value of this business was $9.5 million as of December 28, 2013; however, because these assets were held for sale at such time, we wrote them down to their net realizable

value as of December 28, 2013 based on the terms that had been negotiated with the purchaser and expected transaction costs, resulting in a loss of $4.7 million during 2013. In 2010, we sold our Hilger Crystals Limited subsidiary for $4.0 million in cash. We recognized a loss of $0.5 million after considering the net asset carrying value of $2.5 million, charges of $1.4 million related to the pension plan associated with this business, a charge of $0.4 million to write off an intercompany receivable, and transaction expenses of $0.2 million. In 2012, we recognized a gain of $0.2 million related to an earn-out associated with this transaction. In 2009, we entered into an asset exchange transaction with Oclaro in which we sold substantially all of the assets of our diode laser business, which had a book value of $14.9 million, which resulted in a loss of $4.4 million after considering the fair value of these assets of $11.1 million and selling costs of $0.6 million.

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(6) In 2012, we determined that goodwill and other assets related to our former Ophir Division were impaired and recorded impairment charges of $130.9 million. Of these charges, $67.8 million related to goodwill, $62.6 million related to other acquired intangible assets and $0.5 million related to fixed assets. In 2009, we determined that we would not continue to pursue technology related to purchased in-process research and development and recorded an impairment charge of $0.4 million associated with such technology.

(7) In 2005, we sold our robotic systems operations to Kensington Laboratories LLC (Kensington) for $0.5 million in cash and a note receivable of $5.7 million, after adjustments provided for in the purchase agreement, and subleased the facility relating to such operations to Kensington. In 2008, due to uncertainty regarding collectability of such note receivable and amounts owed under the sublease, we wrote off such note receivable and other amounts owed in full. In 2009, we entered into a settlement agreement with Kensington pursuant to which Kensington paid us $0.2 million and transferred to us certain assets included in the collateral securing the note, and we recognized $0.1 million as a recovery on the note, net of certain costs. In 2011, we recognized an additional $0.6 million as a recovery of amounts due from Kensington, net of certain costs.

(8) In 2001, we established a financing structure through which we loaned our French subsidiary 16.6 million. In 2011, such financing structure was dissolved and, as a result, $7.2 million that had previously been included in other comprehensive income was recognized as a foreign currency translation gain.

(9) We hold equity interests in privately-held corporations, which are accounted for using the cost method. During previous years, we reduced the carrying value of these investments to zero due to the corporations poor financial condition. In 2012, one of these corporations was acquired in a merger transaction and we received $5.3 million for our interest as a result of the acquisition, and another of these corporations redeemed its shares from us for $1.0 million.

(10) In 2013, we terminated the credit agreement that we had entered into in October 2011 and repaid all amounts outstanding under the associated term loan. In connection with terminating this agreement, we recorded a loss on extinguishment of debt of $3.4 million to write off the remaining deferred debt issuance costs associated with this agreement. In 2011, we extinguished $114.4 million of the convertible subordinated notes that we had issued in February 2007 for $115.0 million. After allocating $1.5 million of the extinguished amount to the equity component of the notes, we recorded a loss of $0.1 million on extinguishment of the debt, net of unamortized fees and debt discount. In addition, in 2011, our Ophir Optronics Ltd. subsidiary extinguished $9.1 million of its publicly traded bonds at a price equal to 105.76% of the principal amount of the bonds, or $9.6 million, resulting in a loss of $0.5 million. In 2009, we extinguished $20.2 million of our convertible subordinated notes for $18.7 million. After allocating $0.3 million of the extinguished amount to the equity component of the notes, we recorded a gain of $0.3 million on extinguishment of the debt, net of unamortized fees and debt discount.

(11) We have previously established a valuation allowance against our deferred tax assets due to uncertainty as to the timing and ultimate realization of those assets. In 2010, we reduced such valuation allowance by $18.2 million, due primarily to income generated during the year. In 2011, we reduced such valuation allowance by an additional $41.7 million, due primarily to achieving a cumulative three-year net income position in the United States and expected future profitability. In 2012, we reduced the valuation allowance by $1.8 million due to the recovery of certain domestic investments and capital loss carryovers. Also in 2012, we recorded a valuation allowance against certain deferred tax assets associated with our former Ophir Division totaling $1.9 million. In 2013, we reduced the valuation allowance by $0.9 million due primarily to our Optical Metrology Ltd. subsidiary in Jerusalem, Israel qualifying for the beneficial tax rate of 0% on a portion of its earnings, which necessitated an adjustment to the underlying deferred tax assets and a corresponding adjustment to the valuation allowance. See further discussion in Note 11 of the Notes to Consolidated Financial Statements regarding our valuation allowance.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions that we consider reasonable. When used in this report, the words anticipate, believe, can, continue, could, estimate, expect, intend, may, plan, potential, predict, should, will, would, and similar expressions or the negative of such expressions are intended to identify these forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in Item 1 (Business) and Item 1A (Risk Factors) of Part I of this Annual Report on Form 10-K.

Overview

We are a global supplier of advanced-technology products and systems, including lasers, photonics instrumentation, precision positioning and vibration isolation products and systems, optical components, subassemblies and subsystems, and three-dimensional non-contact measurement equipment. Our products are used worldwide in industries including scientific research, microelectronics, defense and security, life and health sciences and industrial markets.

Prior to 2013, we developed, manufactured and marketed our products within three distinct business segments: our Lasers Division, our Photonics and Precision Technologies (PPT) Division and our Ophir Division. In January 2013, we reorganized our operations to create three new operating groups: our Photonics Group, our Lasers Group and our Optics Group. As a result, we have revised our reportable segments to correspond with our new operating groups, reflecting the manner in which we now assess performance and allocate resources.

The following is a discussion and analysis of certain factors that have affected our results of operations and financial condition during the periods included in the accompanying consolidated financial statements.

Acquisitions and Divestitures

Divestiture of Advanced Packaging Systems Business

During the third quarter of 2013, we developed a plan to sell our advanced packaging systems business and, based on negotiations for the sale of this business that occurred during the second half of 2013, we considered the assets and liabilities of this business as held for sale as of December 28, 2013. We completed the sale of this business in January 2014 for a price of $6.0 million, consisting of $5.35 million in cash and an unsecured note receivable of $0.65 million. We incurred $0.4 million in transaction costs. The net book value of this business was $9.5 million as of December 28, 2013; however, because these assets were held for sale at such time, we wrote them down to their net realizable

value as of December 28, 2013 based on the terms that had been negotiated with the purchaser and expected transaction costs, resulting in a loss of $4.7 million during 2013. The net sales, operating income and cash flows of this business were not significant to our operations.

Acquisition of Vistek Assets

On October 10, 2012, we acquired substantially all of the assets of Advanced Vibration Technologies, Inc., a corporation doing business under the trade name of Vistek (Vistek), for a purchase price of $2.5 million. The purchase price was paid in cash at closing, of which $0.25 million was deposited at closing into escrow until October 10, 2013, to secure certain indemnification obligations of Vistek and its sole shareholder under the asset purchase agreement. The full amount of the escrow deposit was released to the seller upon expiration of the escrow. We incurred $49 thousand in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying consolidated statements of operations and comprehensive income (loss). This acquisition expanded our vibration control and isolation product offerings. The results of the Vistek business are included in the results of our Photonics Group (previously part of our PPT Division) in the accompanying financial statements.

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Acquisition of ILX

On January 13, 2012, we acquired all of the outstanding capital stock of ILX Lightwave Corporation (ILX) by means of a merger of our wholly owned subsidiary with and into ILX. The total purchase price for the acquisition was $9.0 million. An initial purchase price of $9.3 million was paid in cash at closing, of which $1.2 million was deposited at closing into escrow until July 12, 2013, to secure certain indemnification and other obligations of the ILX securityholders. The purchase price was subsequently reduced by $0.3 million, based on a calculation of ILX s net assets at closing. The full amount of the escrow deposit was released to the ILX securityholders upon expiration of the escrow. We incurred $0.1 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying consolidated statements of operations and comprehensive income (loss). This acquisition expanded our optical power meter, laser diode instrumentation and fiber optic source product offerings, and added laser diode and light emitting diode (LED) burn-in, test and characterization systems to our product portfolio. The results of ILX are included in the results of our Photonics Group (previously part of our PPT Division).

Purchase Price Allocation for 2012 Acquisitions

The consideration paid for our acquisitions is allocated to the assets acquired, net of the liabilities assumed, based upon their estimated fair values as of the date of the acquisition. The estimated fair values of intangible assets acquired were determined using an income approach. The excess of the purchase price over the estimated fair value of the assets acquired, net of the estimated fair value of the liabilities assumed, is recorded as goodwill. Below is a summary of the purchase price, assets acquired and liabilities assumed:

(In thousands)	ILX	Vistek Business	Total
Assets acquired and liabilities assumed:			
Cash	$ 44	$	$ 44
Accounts receivable	1,224		1,224
Inventories	861	81	942
Other assets	587	26	613
Goodwill	3,762	273	4,035
Developed technology	2,800	1,200	4,000
Customer relationships	1,100	900	2,000
Other intangible assets	1,090	20	1,110
Deferred income taxes	(1,841)		(1,841)
Other liabilities	(644)		(644)
	$ 8,983	$ 2,500	$ 11,483

The goodwill related to our acquisitions of ILX and Vistek had originally been allocated to our PPT Division. However, as a result of the reorganization of our operating segments in 2013, the goodwill allocated to our former PPT Division has been reallocated to our Photonics and Optics Groups. See Note 5 of the Notes to Consolidated Financial Statements for additional detail. The goodwill related to our acquisition of ILX is not deductible for tax purposes, as the transaction was a merger. The goodwill related to our acquisition of the Vistek business is deductible for tax purposes, as the transaction was an asset purchase.

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Acquisition of Opticoat Assets

On December 29, 2011, we acquired substantially all of the assets of Opticoat SRL (Opticoat) for a purchase price of $3.0 million in cash, of which $2.0 million was paid upon the closing and $1.0 million was held back to secure certain obligations of Opticoat under the acquisition agreement. We paid an additional $0.85 million in 2012 and the remaining $0.15 million in 2013. The present value of these payments was determined to be $2.9 million. We incurred $0.1 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying statements of operations and comprehensive income (loss). This acquisition provided additional low-cost manufacturing capacity in the areas of precision optical components and coatings.

Acquisition of Ophir

On October 4, 2011, we acquired all of the outstanding capital stock of Ophir Optronics Ltd. (Ophir) for $242.3 million in cash, of which $242.1 million was allocated to the purchase price and $0.2 million was allocated to the fair value of unearned compensation related to unvested stock options. We funded the purchase price with a combination of $162.8 million of cash on hand and $79.5 million of the net proceeds we received from the senior secured credit facility that we obtained in October 2011. We incurred $4.7 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying statements of operations and comprehensive income (loss). This acquisition added Ophir s precision infrared optics and lens assemblies, laser measurement instrumentation and three-dimensional non-contact measurement sensors and equipment to our product offerings.

Acquisition of High Q

On July 29, 2011, we acquired all of the capital stock of High Q Technologies GmbH (High Q). The total purchase price was $18.5 million, consisting of an initial purchase price of $17.2 million, $2.9 million of which was deposited into escrow until December 31, 2013 to secure representations and warranties made by the sellers, and a subsequent payment of $1.3 million, which was paid to the sellers based on a calculation of High Q s net assets at closing. The full amount of the escrow deposit was released to the sellers upon expiration of the escrow. We incurred $0.4 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying statements of operations and comprehensive income (loss). This acquisition broadened our ultrafast laser capabilities, particularly for applications in the life and health sciences and industrial markets, and expanded our presence in European laser markets.

Prior to the closing of the acquisition, High Q sold the building that houses its corporate headquarters and its operations to a company established by the then-largest shareholder of High Q for 3.5 million ($4.8 million as of December 28, 2013), and leased the building from the purchaser for a period of at least ten years. High Q financed the purchase price of the building pursuant to a loan agreement with the purchaser that is secured by a mortgage on the building in favor of High Q. Such loan will be repaid over ten years and accrues interest at an annual rate of 2.0%. The principal balance of the loan was 3.1 million ($4.2 million) as of December 28, 2013. As of December 28, 2013, the current portion of the loan was $0.3 million and is included in *prepaid expenses and other current assets,* and the long-term portion of the loan was $3.9 million and is included in *investments and other assets,* in the accompanying consolidated balance sheets.

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Purchase Price Allocation for 2011 Acquisitions

Below is a summary of the purchase price, assets acquired and liabilities assumed for our acquisitions in 2011:

(In thousands)	Ophir	High Q	Opticoat	Total
Assets acquired and liabilities assumed:				
Cash	$ 23,233	$ 5,989	$	$ 29,222
Accounts receivable	18,732	1,494		20,226
Inventories	30,370	7,829		38,199
Other current assets	4,478	5,957		10,435
Goodwill	66,524	6,745	1,302	74,571
Developed technology	41,530	6,300	705	48,535
In-process research and development	9,560			9,560
Customer relationships	56,640	1,350	148	58,138
Other intangible assets	13,970	4,170		18,140
Property and equipment	41,652	1,436	917	44,005
Other noncurrent assets	13,917	225		14,142
Short-term borrowings	(7,082)	(10,699)		(17,781)
Accounts payable	(7,756)	(1,792)		(9,548)
Other current liabilities	(17,562)	(3,690)		(21,252)
Long-term debt	(9,781)	(4,161)		(13,942)
Deferred income taxes	(23,292)	(2,063)		(25,355)
Other noncurrent liabilities	(10,973)	(585)	(137)	(11,695)
Non-controlling interests	(2,076)			(2,076)
	$ 242,084	$ 18,505	$ 2,935	$ 263,524

For our Ophir and Opticoat acquisitions, the goodwill had been allocated to our former Ophir Division and was not deductible for tax purposes. However, in 2012 we determined that such goodwill was impaired, as discussed in the paragraph below. For our High Q acquisition, the goodwill has been allocated to our Lasers Division, a portion of which will be deductible for Austrian tax purposes.

In 2012, we determined that goodwill and other assets related to our former Ophir Division were impaired and recorded impairment charges of $130.9 million. Of these charges, $67.8 million related to goodwill, $62.6 million related to other acquired intangible assets and $0.5 million related to fixed assets. See Impairment Charges on page 52 for additional information.

Fiscal Year End

We use a 52/53-week accounting fiscal year. Our fiscal year ends on the Saturday closest to December 31, and our fiscal quarters end on the Saturday that is generally closest to the end of each corresponding calendar quarter. Fiscal year 2013 (referred to herein as 2013) ended on December 28, 2013, fiscal year 2012 (referred to herein as 2012) ended on December 29, 2012 and fiscal year 2011 (referred to herein as 2011) ended on December 31, 2011. Each of these fiscal years consisted of 52 weeks.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements included in this Annual Report on Form 10-K, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate these estimates and assumptions on an ongoing basis. We base our estimates on our historical experience and on various other factors which we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of certain expenses that are not readily apparent from other sources. Our significant accounting policies are discussed in Note 1 (Organization and

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Summary of Significant Accounting Policies) of the Notes to Consolidated Financial Statements, included in Item 15 (Exhibits, Financial Statement Schedules) of this Annual Report on Form 10-K. The accounting policies that involve the most significant judgments, assumptions and estimates used in the preparation of our financial statements are those related to revenue recognition, allowances for doubtful accounts, pension plans, inventory reserves, warranty obligations, asset impairment, income taxes and stock-based compensation expense. The judgments, assumptions and estimates used in these areas by their nature involve risks and uncertainties, and in the event that any of them prove to be inaccurate in any material respect, it could have a material adverse effect on our reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Revenue Recognition

We recognize revenue after title to and risk of loss of products have passed to the customer, or delivery of the service has been completed, provided that persuasive evidence of an arrangement exists, the price is fixed or determinable and collectability is reasonably assured. Title to and risk of loss of products generally pass to the customer upon delivery, but in certain cases pass upon acceptance. We recognize revenue and related costs for arrangements with multiple deliverables, such as equipment and installation, as each element is delivered or completed based upon its relative selling price, determined based upon the price that would be charged on a standalone basis. If a portion of the total contract price is not payable until installation is complete, we do not recognize such portion as revenue until completion of installation. Revenue for extended service contracts is recognized over the related contract periods. Revenue for programs involving design and development services and delivery of product prototypes and/or other deliverables is recognized upon the completion of specified milestones, or over the term of the program based upon the percentage of completion of the program, depending on the terms of the associated contract. Certain sales to international customers are made through third-party distributors and revenue is recognized upon the sale to the distributor. A discount below list price is generally provided at the time the product is sold to the distributor, and such discount is reflected as a reduction in net sales. Freight costs billed to customers are included in *net sales*, and freight costs incurred are included in *selling, general and administrative expenses*. Sales taxes collected from customers are recorded on a net basis and any amounts not yet remitted to tax authorities are included in *accrued expenses and other current liabilities*.

In the event that we determine that all of the criteria for recognition of revenue have not been met for a transaction, the amount of revenue that we recognize in a given reporting period could be adversely affected. In particular, our ability to recognize revenue for high-value product shipments could cause significant fluctuations in the amounts of revenue reported from period to period depending on the timing of the shipments and the terms of sale of such products.

Our customers (including distributors) generally have 30 days from the original invoice date (generally 60 days for international customers) to return a standard catalog product purchase for exchange or credit. Catalog products must be returned in the original condition and meet certain other criteria. Custom, option-configured and certain other products as defined in the terms and conditions of sale cannot be returned without our consent. For certain products, we establish a sales return reserve based on the historical product returns. If actual product returns exceed our established sales return reserves, our net sales would be adversely affected.

Accounts Receivable

We record reserves for specific receivables deemed to be at risk for collection, as well as a reserve based on our historical collections experience. We estimate the collectability of customer receivables on an ongoing basis by reviewing past due invoices and assessing the current creditworthiness of each customer. A considerable amount of judgment is required in assessing the ultimate realization of these receivables.

Pension Plans

Several of our non-U.S. subsidiaries have defined benefit pension plans covering substantially all full-time employees at those subsidiaries. Some of the plans are unfunded, as permitted under the plans and applicable laws. For financial reporting purposes, the calculation of net periodic pension costs is based upon a number of actuarial assumptions, including a discount rate for plan obligations, an assumed rate of return on pension plan assets and an assumed rate of compensation increase for employees covered by the plan. All of these assumptions are based upon

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our judgment, considering all known trends and uncertainties. Actual results that differ from these assumptions would impact future expense recognition and the cash funding requirements of our pension plans.

We account for our Israeli pension plans using the shut-down method of accounting. Under the shut-down method, the liability is calculated as if it was payable as of each balance sheet date, on an undiscounted basis. In addition, the assets and liabilities of the plans are accounted for on a gross basis.

Inventories

We state our inventories at the lower of cost (determined on a first-in, first-out (FIFO) basis) or fair market value and include materials, labor and manufacturing overhead. Inventories that are expected to be sold within one year are classified as current inventories and are included in *inventories,* and inventories that we expect to hold for longer than one year are included in *investments and other assets* in the accompanying consolidated balance sheets. We write down excess and obsolete inventory to net realizable value. Once we write down the carrying value of inventory, a new cost basis is established, and we do not increase the newly established cost basis based on subsequent changes in facts and circumstances. In assessing the ultimate realization of inventories, we make judgments as to future demand requirements and compare those requirements with the current and committed inventory levels. We record any amounts required to reduce the carrying value of inventory to net realizable value as a charge to cost of sales. Should actual demand requirements differ from our estimates, we may be required to reduce the carrying value of inventory to net realizable value, resulting in a charge to cost of sales which would adversely affect our operating results.

Warranty

Unless otherwise stated in our product literature or in our agreements with customers, products sold by our Photonics and Optics Groups generally carry a one-year warranty from the original invoice date on all product materials and workmanship, other than filters and gratings products, which generally carry a 90-day warranty, and laser beam profilers and dental CAD/CAM scanners, which generally carry a two-year warranty. Products sold by the Photonics and Optics Groups to original equipment manufacturer (OEM) customers carry warranties generally ranging from 15 to 19 months. Products sold by our Lasers Group carry warranties that vary by product, customer type and product component, but generally range from 90 days to two years. In certain cases, such warranties for Lasers Group products are limited by either a set time period or a maximum amount of hourly usage of the product, whichever occurs first. Defective products will be either repaired or replaced, generally at our option, upon meeting certain criteria. We accrue a provision for the estimated costs that may be incurred for warranties relating to a product (based on historical experience) as a component of cost of sales at the time revenue for that product is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligations are affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage and/or service delivery costs negatively differ from our estimates, revisions to the estimated warranty obligation would be required which could adversely affect our operating results. Short-term accrued warranty obligations, which expire within one year, are included in *accrued expenses and other current liabilities* and long-term warranty obligations are included in *deferred income taxes and other liabilities* in the accompanying consolidated balance sheets.

Impairment of Assets

We assess the impairment of long-lived assets at least annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. The determination of related estimated useful lives and whether or not these assets are impaired involves significant judgments, related primarily to the future profitability and/or future value of the assets. Changes in our strategic plan and/or market conditions could significantly impact these judgments and could require adjustments to recorded asset balances.

Goodwill represents the excess of the purchase price of the net assets of acquired entities over the fair value of such assets. Under Accounting Standards Codification (ASC) 350-20, *Intangibles Goodwill and Other,* goodwill and other indefinite-lived intangible assets are not amortized but are tested for impairment at least annually or when circumstances exist that would indicate an impairment of such goodwill or other intangible assets. We perform the annual impairment test as of the beginning of the fourth quarter of each year. A two-step test is used to identify the potential impairment and to measure the amount of impairment, if any. The first step is based upon a comparison of

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the fair value of each of our reporting units, as defined, and the carrying value of the reporting unit s net assets, including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired; otherwise, step two is required. Under step two, the implied fair value of goodwill, calculated as the difference between the fair value of the reporting unit and the fair value of the net assets of the reporting unit, is compared with the carrying value of goodwill. The excess of the carrying value of goodwill over the implied fair value represents the amount impaired.

We determine our reporting units by identifying those operating segments or components for which discrete financial information is available which is regularly reviewed by the management of that unit. For any acquisition, we allocate goodwill to the applicable reporting unit at the completion of the purchase price allocation through specific identification.

Fair value of our reporting units is determined using a combination of a comparative company analysis and a discounted cash flow analysis. The comparative company analysis establishes fair value by applying market multiples to our revenue and earnings before interest, income taxes, depreciation and amortization. Such multiples are determined by comparing our reporting units with other publicly traded companies within the respective industries that have similar economic characteristics. The discounted cash flow analysis establishes fair value by estimating the present value of the projected future cash flows of each reporting unit. The present value of estimated discounted future cash flows is determined using our estimates of revenue and costs for the reporting units, using a combination of historical results, industry data and competitor data, as well as appropriate discount rates. The discount rate is determined using a weighted-average cost of capital that incorporates market participant data and a risk premium applicable to each reporting unit.

We recorded impairment charges related to long-lived assets, goodwill and other intangible assets in 2012. An explanation of such impairment charges is included in the discussion of our results of operations under the heading Impairment Charges on page 52. There were no impairment charges in 2013 or 2011.

Income Taxes

Our income tax expense (benefit), deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management s best assessment of estimated future taxes. We are subject to income taxes in the United States and numerous international jurisdictions. Significant judgments and estimates are required in determining our consolidated income tax expense (benefit).

We utilize the asset and liability method of accounting for income taxes. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, evolution of regulations and court rulings. Therefore, the actual liability for U.S. or international taxes may be materially different from our estimates, which could result in the need to record additional liabilities or to reverse previously recorded tax liabilities. Differences between actual results and our assumptions, or changes in our assumptions in future periods, are recorded in the period they become known.

Deferred income taxes are recognized for the future tax consequences of temporary differences using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Temporary differences include the difference between the financial statement carrying amounts, and the tax bases of existing assets and liabilities as well as operating loss and tax credit carryforwards. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the

enactment date. In accordance with the provisions of ASC 740, a valuation allowance for deferred tax assets is recorded to the extent we cannot determine that the ultimate realization of the net deferred tax assets is more likely than not. Realization of deferred tax assets is principally dependent upon the achievement of future taxable income, the estimation of which requires significant management judgment.

We have maintained a valuation allowance against a portion of our gross deferred tax assets. We have monitored our actual results, forecast data and other available evidence, both positive and negative, and we have periodically increased or reduced the valuation allowance based on our determinations of whether it is more likely than not that we will realize our net deferred tax assets. An explanation of adjustments made to our valuation allowance in each fiscal year is included in the discussion of our results of operations under the heading Income Taxes on page 53.

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We utilize ASC 740-10-25, *Income Taxes Recognition*, which requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. Under ASC 740-10-25, tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. As a multi-national corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. As a result of these adjustments, our effective tax rate in a given financial statement period could be materially affected.

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718, *Compensation Stock Compensation*. Under the fair value recognition provision of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award. We estimate the fair value of stock options and stock appreciation rights granted using the Black-Scholes-Merton option pricing model and a single option award approach. The fair value of restricted stock unit awards is based on the closing market price of our common stock on the date of grant.

Determining the appropriate fair value of stock options and stock appreciation rights at the grant date requires significant judgment, including estimating the volatility of our common stock and expected term of the awards. We compute expected volatility based on historical volatility over the expected term. The expected term represents the period of time that stock options and stock appreciation rights are expected to be outstanding and is determined based on our historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expected exercise behavior.

A substantial portion of our restricted stock unit awards vest based upon the achievement of one or more financial performance thresholds established by the Compensation Committee of our Board of Directors. Currently, such performance thresholds relate to the fiscal year in which the award is granted, and if and to the extent that such performance thresholds are met, the awards vest in equal one-third (1/3) annual installments. Until we have determined that performance thresholds have been met, the amount of expense that we record relating to performance-based awards is estimated based on the likelihood of achieving the performance thresholds. Estimating the likelihood of achievement of performance thresholds requires significant judgment, as such estimates are based on forecasted results of operations. We also make certain judgments regarding expected forfeitures of all stock-based awards, which may vary significantly from actual forfeitures. If our actual results of operations or forfeitures differ from our estimates, we may need to increase or decrease the compensation expense related to stock-based awards, which could significantly impact the amount of stock-based compensation expense recorded in a given period.

The fair value of stock-based awards, adjusted for estimated forfeitures (and adjusted for estimated or actual achievement of performance thresholds in the case of awards having performance-based vesting conditions), is amortized using the straight-line attribution method over the requisite service period of the award, which is generally the vesting period.

The total stock-based compensation expense included in our consolidated statements of operations and comprehensive income (loss) was as follows:

(In thousands)	Year Ended December 28, 2013	December 29, 2012	December 31, 2011
Cost of sales	$ 938	$ 693	$ 488
Selling, general and administrative expenses	7,142	6,740	5,029
Research and development expense	1,093	936	684
	$ 9,173	$ 8,369	$ 6,201

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Results of Operations for the Years Ended December 28, 2013, December 29, 2012 and December 31, 2011

The following table represents our results of operations for the periods indicated as a percentage of net sales:

	Percentage of Net Sales For the Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Net sales	100.0%	100.0%	100.0%
Cost of sales	57.6	56.2	56.0
Gross profit	42.4	43.8	44.0
Selling, general and administrative expenses	26.6	26.8	25.8
Research and development expense	9.4	8.8	8.3
Loss (gain) on sale of assets and related costs	0.8	(0.0)	
Impairment charge		22.0	
Operating income (loss)	5.6	(13.8)	9.9
Recovery of note receivable and other amounts related to previously discontinued operations, net			0.1
Foreign currency translation gain from dissolution of subsidiary			1.3
Gain on sale of investments		1.0	
Loss on extinguishment of debt	(0.6)		(0.1)
Interest and other expense, net	(1.2)	(1.4)	(1.9)
Income (loss) before income taxes	3.8	(14.2)	9.3
Income tax provision (benefit)	1.0	0.9	(5.3)
Net income (loss)	2.8	(15.1)	14.6
Net income (loss) attributable to non-controlling interest	0.0	(0.1)	
Net income (loss) attributable to Newport Corporation	2.8%	(15.0)%	14.6%

In the following discussion regarding our results of operations, certain prior period amounts have been restated to conform to our current operating groups. In addition, in the following discussion regarding our net sales, due to changes in our market classifications for certain of our customers and product applications, certain prior period amounts have been reclassified among our end markets to conform to the current period presentation.

Net Sales

For 2013, 2012 and 2011, our net sales totaled $560.1 million, $595.3 million and $545.1 million, respectively. Our total net sales decreased $35.2 million, or 5.9%, in 2013 compared with 2012. Net sales by our Photonics Group decreased $7.3 million, or 3.1%, net sales by our Lasers Group decreased $15.6 million, or 8.6%, and net sales by our Optics Group decreased $12.3 million, or 7.0%, in 2013 compared with 2012. We experienced decreases in net sales in all of our end markets in 2013 compared with 2012. These decreases were due primarily to lower research and defense budgets and uncertainty in future spending levels, and the continued cyclical downturn in the semiconductor equipment industry, which was particularly pronounced during late 2012 and the first half of 2013.

Our total net sales increased $50.2 million, or 9.2%, in 2012 compared with 2011. Net sales by our Photonics Group increased $33.3 million, or 16.3%, net sales by our Lasers Group decreased $10.1 million, or 5.3%, and net sales by our Optics Group increased by $27.1 million, or 18.2%, in 2012 compared with 2011. The photonics businesses of Ophir, which we acquired on October 4, 2011, contributed $37.9 million to the net sales by our Photonics Group for the full year of 2012, compared with $9.2 million of net sales in the remainder of 2011 following the acquisition date. ILX, which we acquired on January 13, 2012, contributed $7.2 million to the sales

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by our Photonics Group in 2012, for which there were no comparable sales during 2011. High Q, which we acquired on July 29, 2011, contributed $26.4 million to the sales by our Lasers Group for the full year of 2012, compared with $13.6 million of net sales in the remainder of 2011 following the acquisition date. These additional sales were more than offset by decreases in our Lasers Group sales in 2012 due to the discontinuation of certain products. The optics businesses of Ophir contributed $59.7 million to the net sales by our Optics Group for the full year of 2012, compared with $16.2 million of net sales in the remainder of 2011 following the acquisition date.

We experienced increases in sales in 2012 compared with 2011 in our scientific research, defense and security, life and health sciences, and industrial manufacturing and other end markets, due primarily to the incremental sales provided by our acquisitions of Ophir, High Q and ILX. These increases were offset in part by a decrease in sales in our microelectronics end market, due primarily to the cyclical downturn in the semiconductor equipment industry, which began in mid-2011. Our sales to customers in the microelectronics market were not impacted significantly by our acquisitions.

Net sales to the scientific research market were $123.1 million, $131.0 million and $144.3 million for 2013, 2012 and 2011, respectively. The decrease of $7.9 million, or 6.0%, in 2013 compared with 2012 was due primarily to budget constraints and uncertainty in future global research spending levels, particularly in Europe and the Pacific Rim. The decrease of $13.3 million, or 9.2%, in 2012 compared with 2011 was also due to budget constraints and uncertainty in future global research spending levels, offset in part by the incremental sales provided by our acquisition of ILX. Generally, our net sales to this market by each of our operating groups may fluctuate from period to period due to changes in overall research spending levels and the timing of large sales relating to major research programs and, in some cases, these fluctuations may be offsetting between our operating groups or between such periods.

Net sales to the defense and security markets were $58.6 million, $71.5 million and $39.4 million for 2013, 2012 and 2011, respectively. The decrease of $12.9 million, or 18.0%, in 2013 compared with 2012 was due primarily to lower defense budgets and uncertainty in future defense spending levels, primarily in the United States. The increase of $32.1 million, or 81.5%, in 2012 compared with 2011 was due to our acquisition of Ophir, which contributed sales to these markets totaling $46.5 million for the full year of 2012, compared with $12.1 million of sales to these markets in the remainder of 2011 following the acquisition date. These increases were offset in part by budget constraints and uncertainty in future global defense spending levels. Generally, our net sales to these markets by each of our operating groups may fluctuate from period to period due to changes in overall defense spending levels and the timing of large sales relating to major defense programs and, in some cases, these fluctuations may be offsetting between our operating groups or between such periods.

Net sales to the microelectronics market were $131.1 million, $138.8 million and $157.8 million for 2013, 2012 and 2011, respectively. The decrease of $7.7 million, or 5.5%, in 2013 compared with 2012, and the decrease of $19.0 million, or 12.0%, in 2012 compared with 2011, were due primarily to the cyclical downturn in the semiconductor equipment industry that began in the second half of 2011 and was particularly pronounced at the end of 2012 and in the first half of 2013. The decrease in sales in 2013 compared with 2012 was offset in part by sales from new program wins with semiconductor equipment manufacturer customers.

Net sales to the life and health sciences market were $124.5 million, $132.3 million and $120.1 million for 2013, 2012 and 2011, respectively. The decrease of $7.8 million, or 5.9%, in 2013 compared with 2012 was due primarily to decreased sales of products used for bioimaging, analytical instrumentation and surgical applications, offset in part by increased sales of three-dimensional dental scanning systems. The increase of $12.2 million, or 10.2%, in 2012 compared with 2011 was due to our acquisitions of High Q and Ophir, which contributed sales to this market totaling $33.2 million for the full year of 2012 compared with $15.6 million of sales in the remainder of 2011 following the acquisition dates. These increases were offset in part by decreased sales of products for analytical instrumentation and bioimaging applications.

Net sales to our industrial manufacturing and other end markets were $122.7 million, $121.7 million and $83.5 million for 2013, 2012 and 2011, respectively. The increase of $1.0 million, or 0.8%, in 2013 compared with 2012 was due to increased sales of products used for industrial equipment manufacturing, automated assembly and automotive safety, offset by decreased sales of products used for optical metrology, graphics and laser and electro optics applications. The increase of $38.2 million, or 45.8%, in 2012 compared with 2011 was due primarily to the acquisition of Ophir, which contributed $37.9 million in sales to these markets for the full year of 2012, and $9.0 million in sales to these markets in the remainder of 2011 following the acquisition date. In addition, our acquisition

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of ILX contributed sales to these markets of $4.6 million during 2012, for which there were no comparable sales in 2011.

The table below reflects our net sales by geographic region. Sales are attributed to each location based on the customer address to which the product is shipped.

	Year Ended			
(In thousands, except percentages)	December 28, 2013	December 29, 2012	Increase (Decrease)	Percentage Increase (Decrease)
United States	$ 218,298	$ 243,674	$ (25,376)	(10.4)%
Germany	75,119	73,383	1,736	2.4
Other European countries	81,178	78,428	2,750	3.5
Japan	51,761	62,947	(11,186)	(17.8)
Other Pacific Rim countries	95,779	94,313	1,466	1.6
Rest of world	37,919	42,601	(4,682)	(11.0)
Total sales	$ 560,054	$ 595,346	$ (35,292)	(5.9)%

	Year Ended			
(In thousands, except percentages)	December 29, 2012	December 31, 2011	Increase	Percentage Increase
United States	$ 243,674	$ 240,736	$ 2,938	1.2%
Germany	73,383	61,580	11,803	19.2
Other European countries	78,428	72,957	5,471	7.5
Japan	62,947	52,971	9,976	18.8
Other Pacific Rim countries	94,313	80,731	13,582	16.8
Rest of world	42,601	36,079	6,522	18.1
Total sales	$ 595,346	$ 545,054	$ 50,292	9.2%

The decreases in sales to customers in the United States, Japan and other areas of the world in 2013 compared to 2012 were due to decreased sales to customers in all of our end markets in these regions, except for increases in sales to defense customers in other areas of the world and to industrial manufacturing customers in the United States. The decreased sales in these regions in our life and health sciences end market were due primarily to lower sales of products for analytical instrumentation and bioimaging, and the decreased sales in these regions in our microelectronics market were due to the continued cyclical downturn in the semiconductor equipment industry, which was particularly pronounced at the end of 2012 and in the first half of 2013. The decreased sales in the United States in our defense and security end markets were due primarily to decreased defense spending as a result of lower defense budgets and uncertainty in future defense spending levels.

The increases in sales to Germany and other European countries and to Pacific Rim countries other than Japan in 2013 compared with 2012 were due primarily to increased sales to customers in our life and health sciences market and industrial manufacturing and other markets, driven by increased sales of three-dimensional measurement equipment in Europe and increased sales of products used for automated assembly and industrial equipment manufacturing in China. The increases in sales to all of these regions were offset in part by decreased sales to scientific research customers. Sales to customers in our microelectronics end market in 2013 decreased in the Pacific Rim and in Germany but increased in other European countries, compared with 2012. Sales to customers in our defense and security end market in 2013 increased in Germany but decreased in other European countries, compared with 2012.

The increases in sales to customers in the United States, European countries including Germany, and other areas of the world in 2012 compared with 2011 were due primarily to increased sales to defense customers and to customers in our life and health sciences and industrial

manufacturing and other end markets as a result of our acquisitions of Ophir, High Q and ILX. These increases were offset in part by decreased sales to research customers, due primarily to the budget constraints and research funding uncertainty in the United States, and to

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customers in our microelectronics end market, due primarily to the cyclical downturn in the semiconductor equipment industry that began in the second half of 2011. The increase in sales to customers in Japan in 2012 compared with 2011 was due to our acquisition of Ophir and increased sales to certain microelectronics customers. The increase in sales to customers in the other Pacific Rim countries in 2012 compared with 2011 was attributable primarily to increased sales to customers in our microelectronics end market, due in part to sales being shifted to the Pacific Rim as a result of transfers of manufacturing operations by certain OEM customers to Asia, and to increased sales to customers in our industrial manufacturing and other end markets due to our acquisition of Ophir. Such increases in the Pacific Rim were offset in part by lower sales to customers in our life and health sciences, scientific research and defense and security end markets. The increases in sales to customers in other areas of the world in 2012 compared with 2011 were due primarily to increased sales to defense customers as a result of the Ophir acquisition.

Gross Margin

Gross margin was 42.4%, 43.8% and 44.0% for 2013, 2012 and 2011, respectively. The decrease in gross margin in 2013 compared with 2012 was due primarily to decreased margins in our Optics Group due to lower absorption of manufacturing overhead as a result of lower sales and production levels. The decrease in gross margin in 2012 compared with 2011 was due primarily to increased intangible asset amortization associated with technology acquired in our recent acquisitions, and to a higher proportion of sales of lower margin products by our Optics Group.

In general, we expect that our gross margin will vary in any given period depending upon factors including our mix of sales, product pricing variations, manufacturing absorption levels, and changes in levels of inventory and warranty reserves.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses totaled $149.2 million, or 26.6% of net sales, $159.3 million, or 26.8% of net sales, and $140.6 million, or 25.8% of net sales, during 2013, 2012 and 2011, respectively. The decrease in total SG&A expenses in 2013 compared with 2012 was attributable primarily to a reduction in depreciation and amortization expense of $10.3 million resulting primarily from the write-off of certain intangible assets of our former Ophir Division during the fourth quarter of 2012, and a reduction in personnel costs of $2.3 million resulting primarily from lower incentive compensation accruals, as well as headcount reductions implemented as part of our 2012 cost reduction initiative. These reductions in SG&A were offset in part by charges associated with a facility closure and increased selling expenses due to a charge associated with a change in our sales channel.

The increase in total SG&A expenses in 2012 compared with 2011 was attributable primarily to our acquisitions of Ophir, High Q and ILX. In 2012 compared with 2011, personnel expenses increased by $12.2 million, intangible asset amortization increased by $8.3 million, and travel expenses increased by $1.4 million, and we also experienced increases in consulting fees and utilities expenses. Our legal fees decreased by $3.7 million in 2012 compared with the prior year period due primarily to the legal fees that we incurred in 2011 relating to our acquisitions, which did not recur in 2012. In addition, third party commissions incurred by our other businesses decreased by $1.2 million in 2012 compared with 2011.

In general, we expect that SG&A expenses will vary as a percentage of sales in the future based on our sales level in any given period. Because the majority of our SG&A expenses are fixed in the short term, these changes in SG&A expenses will likely not be in proportion to the changes

in net sales. In addition, any acquisitions would increase our SG&A expenses, and such increases may not be in proportion to the changes in net sales.

Research and Development (R&D) Expense

R&D expense totaled $52.5 million, or 9.4% of net sales, $52.7 million, or 8.8% of net sales, and $45.3 million, or 8.3% of net sales, during 2013, 2012 and 2011, respectively. The decrease in R&D expense in absolute dollars in 2013 compared with 2012 was due primarily to refundable R&D tax credits totaling $1.3 million, offset by increased spending on new projects. Such tax credits are recorded as a reduction in R&D expense because they are not dependent on us having taxable income.

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The increase in R&D expense in 2012 compared with 2011 was due primarily to additional R&D expenses resulting from our acquisitions, offset in part by decreased R&D spending across the remainder of our business.

We believe that the continued development and advancement of our products and technologies is critical to our future success, and we intend to continue to invest in R&D initiatives, while working to ensure that the efforts are focused and the funds are deployed efficiently. In general, we expect that R&D expense as a percentage of net sales will vary in the future based on our sales level in any given period. Because of our commitment to continued product development, and because the majority of our R&D expense is fixed in the short term, changes in R&D expense will likely not be in proportion to the changes in net sales. In addition, any acquisitions would increase our R&D expenses, and such increases may not be in proportion to the changes in net sales.

Loss (Gain) on Sale of Assets and Related Costs

During 2013, we recognized a $4.7 million loss associated with the sale of our advanced packaging systems business, as we wrote down the assets held for sale to their net realizable value, as discussed in more detail under the heading Divestiture of Advanced Packaging Systems Business on page 40. The sale was completed in January 2014.

In connection with the sale of our Hilger Crystals Limited subsidiary in July 2010, we were entitled to receive an additional payment of up to $0.75 million in cash if Hilger Crystals achieved certain specified revenue targets during the 18-month period following the closing date. Based on the actual revenue level achieved by Hilger Crystals during such period, we received an additional payment of $0.2 million, which was recorded as a gain on the sale of assets in 2012.

Impairment Charges

During 2012, sales by our former Ophir Division were below the levels that we had originally forecasted at the time of our acquisition of Ophir. In light of those sales levels and other factors, in connection with the annual evaluation of our goodwill and other intangible assets in the fourth quarter of 2012, we determined that the cash flow projections of our former Ophir Division had diminished and, therefore, the goodwill and other intangible assets associated with that division were impaired. In addition, in connection with our annual evaluation of long-lived assets, we determined that certain fixed assets of our former Ophir Division were also impaired. As a result, we recorded impairment charges totaling $130.9 million, consisting of $67.8 million related to goodwill, $62.6 million related to acquired intangible assets, and $0.5 million related to fixed assets.

Recovery of Note Receivable and Other Amounts

In 2005, we sold our robotic systems operations to Kensington Laboratories LLC (Kensington) for $0.5 million in cash and a note receivable of $5.7 million, after adjustments provided for in the purchase agreement, and subleased the facility relating to such operations to Kensington. We had previously classified this business as a discontinued operation. Kensington failed to make certain principal, interest and rent payments due

under our agreements. The note was secured by a first-priority security interest in certain Kensington assets. In 2008, due to uncertainty regarding the collectability of such amounts, we wrote off the note receivable and other amounts owed in full, resulting in charges totaling $7.0 million, net of amounts recovered relating to the sublease. In 2011, we recognized $0.6 million as a recovery of amounts due from Kensington, net of certain costs, related primarily to the sale of the collateral.

Foreign Currency Translation Gain from Dissolution of Subsidiary

During 2011, we recognized a total of $7.2 million in foreign currency translation gains, which had previously been included in other comprehensive income, in connection with the dissolution of our French financing subsidiary.

Gain on Sale of Investments

We hold equity interests in privately-held corporations, which were accounted for using the cost method. During previous years, we had reduced the carrying values of these interests to zero due to the corporations poor financial condition at that time. In 2012, one of these corporations was acquired in a merger transaction and we

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received $5.3 million for our interest as a result of the acquisition, and another of these corporations redeemed its shares from us for $1.0 million.

Loss on Extinguishment of Debt

In 2013, we entered into a new credit agreement and terminated our prior credit agreement, as discussed in more detail under Liquidity and Capital Resources beginning on page 54. In connection with terminating our prior credit agreement, we recorded a loss on extinguishment of debt of $3.4 million to write off the remaining deferred debt issuance costs associated with this agreement. During 2011, we extinguished $114.4 million of the convertible subordinated notes that we issued in February 2007 at a weighted-average price equal to 100.5% of the principal amount of the notes, or $115.0 million. After allocating $1.5 million to the equity component, we recorded a loss of $0.1 million on extinguishment of debt, net of unamortized fees and debt discount. In addition, in 2011, we retired Ophir s outstanding publicly traded bonds with a carrying value of approximately $9.1 million for $9.6 million, resulting in a loss of $0.5 million.

Interest and Other Expense, Net

Interest and other expense, net was $6.5 million, $8.6 million and $10.6 million in 2013, 2012 and 2011, respectively. The decrease in interest and other expense, net in 2013 compared with 2012 was due primarily to a decrease in interest expense as a result of a lower average interest rate on our current revolving credit facility compared with the term loan under our prior credit agreement, and a lower average outstanding debt balance during 2013. The decrease in interest and other expense, net in 2012 compared with 2011 was due primarily to a decrease in interest expense as a result of the repayment of our convertible subordinated notes and the lower interest expense associated with our term loan compared with our convertible notes, and to gains on derivative instruments, offset in part by foreign currency translation losses in 2012.

Income Taxes

Our effective income tax rate reflected a tax expense of 26.6% for 2013, a tax expense of (6.5)% for 2012 and a tax benefit of (57.7)% for 2011. In 2013, our income tax rate was favorably impacted by the retroactive extension of the federal research credit for 2012, which was signed into law on January 2, 2013 and the reversal of uncertain foreign tax positions related to our Japanese and French subsidiaries, due to the expiration of the applicable audit statute of limitations. This was offset in part by the unfavorable impact related to an adjustment to our Israeli deferred tax assets and liabilities, as a result of the adoption by the Israeli Parliament on July 30, 2013 of Budget Law 2013-2014 and the Economic Arrangements Law, which will impact the corporate tax rate applicable to our Israeli based operations effective January 1, 2014. In 2012, we recorded a loss before income taxes as a result of the impairment charges discussed under the heading Impairment Charges on page 52. Certain of these impairment charges were not deductible for tax purposes and, as such, we recorded a tax expense in 2012 notwithstanding such loss. Also in 2012, we substantially completed a corporate reorganization related to the U.S. subsidiaries from our Ophir acquisition, which necessitated updates to the estimated state tax rates used to value our domestic deferred tax assets and liabilities, and as a result, we recognized a $1.0 million tax benefit, which offset in part our tax expense for 2012.

We had previously established a valuation allowance against substantially all domestic and certain foreign deferred tax assets due to the uncertainty as to the timing and ultimate realization of those assets. During the fourth quarter of 2011, we achieved a cumulative three-year net income position in the United States, and we expected to achieve future profitability. Management considered this position along with other

available evidence, both positive and negative, and determined, as of December 31, 2011, that it was more likely than not that our net deferred tax assets (exclusive of deferred tax liabilities related to indefinite lived intangibles) would be realized, with the exception of domestic capital losses, domestic unrealized losses, foreign net operating loss carryforwards and other miscellaneous foreign deferred tax assets. Accordingly, we recorded a reduction in our valuation allowance of $41.7 million, representing substantially all of the valuation allowance against our U.S. deferred tax assets and resulting in a tax benefit in 2011. During 2012, we released $1.8 million of our remaining valuation allowance related to certain domestic deferred tax assets due to the recovery of certain investments and capital loss carryovers. Also during 2012, after evaluating all positive and negative facts, we determined that it was not more likely than not that we would realize certain deferred tax assets associated with our former Ophir Division. Therefore, we recorded a valuation allowance of $1.9 million, substantially all of which was applicable to our Optical Metrology Ltd.

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subsidiary based in Jerusalem, Israel. In 2013, we reduced the valuation allowance by $0.8 million due primarily to Optical Metrology Ltd. qualifying for the beneficial tax rate of 0% on a portion of its earnings, which necessitated an adjustment to the underlying deferred tax assets and a corresponding adjustment to the valuation allowance. As of December 28, 2013, we maintained a valuation allowance on domestic unrealized losses, certain domestic and foreign net operating loss carryforwards and other miscellaneous foreign deferred tax assets of $2.3 million.

As of December 28, 2013, we had $17.4 million of gross unrecognized tax benefits and a total of $14.4 million of net unrecognized tax benefits, which, if recognized, would affect our effective tax rate. We accrue interest and penalties related to unrecognized tax benefits in our provision for income taxes. Interest and penalties related to unrecognized tax benefits were not significant as of December 28, 2013. We do not anticipate that the balance of unrecognized tax benefits will change significantly over the next twelve months.

During 2013, we quantified the potential tax benefits associated with the Extraterritorial Income exclusion (ETI), which was effective for tax years 2001 to 2006. Due to our history of losses during that period, it was not previously practical or cost efficient to pursue the estimated benefit. During 2013, we determined that after tax ETI benefits of $1.2 million were available. However, due to various factors, it was determined that this tax position did not meet the more-likely-than-not standard and, accordingly, the full amount has been added as an unrecognized tax benefit.

Liquidity and Capital Resources

Our cash and cash equivalents, restricted cash and marketable securities balances decreased to $64.2 million as of December 28, 2013 from $100.4 million as of December 29, 2012. This decrease was attributable primarily to cash used for net repayments of debt and purchases of property and equipment, offset in part by cash provided by our operating activities and proceeds from the issuance of common stock under employee stock plans.

Net cash provided by our operating activities of $63.9 million for the year ended December 28, 2013 was attributable primarily to cash provided by our results of operations, an increase of $6.2 million in accrued expenses related primarily to increases in tax accruals and a decrease of $3.3 million in prepaid expenses and other assets due primarily to the timing of certain payments, offset in part by an increase in accounts receivable of $9.2 million due to the timing of receipts.

Net cash used in investing activities of $14.7 million for the year ended December 28, 2013 was attributable primarily to purchases of property and equipment of $16.3 million.

Net cash used in financing activities of $85.2 million for the year ended December 28, 2013 was attributable primarily to net repayments of borrowings of $94.0 million, which consisted primarily of principal payments on the term loan under our previous credit facility and payments on our New Credit Facility (as defined on page 55), payments of $1.5 million in debt issuance costs associated with our New Credit Facility and payments of $2.0 million in connection with the cancellation of restricted stock units for taxes owed by employees upon the vesting of restricted stock units issued under our stock incentive plans. These payments were offset in part by proceeds of $8.3 million from the issuance of common stock under employee stock plans and an excess tax benefit of $4.0 million related to stock-based compensation.

As of December 28, 2013, we had cash and cash equivalents of $53.7 million, restricted cash of $2.3 million and marketable securities of $8.2 million. Substantially all of our marketable securities are currently invested in certificates of deposit or Euro Over Night Index Average (Eonia) securities. Our senior financial management and our Board of Directors periodically review our marketable securities to determine the appropriate investment strategy. We expect that our cash balances will fluctuate in the future based on factors such as cash used in or provided by ongoing operations, acquisitions or divestitures, investments in other companies, capital expenditures, debt payment requirements and other contractual obligations, and changes in interest rates.

A substantial portion of our cash and cash equivalents, restricted cash and marketable securities is held outside the United States and relates to undistributed earnings of certain of our foreign subsidiaries that are considered to be indefinitely reinvested. We currently do not intend or anticipate a need to repatriate such funds, as we expect that the cash and cash equivalents, restricted cash and/or marketable securities held in the United States, together with our cash flows from U.S. operations and the borrowing capacity under our New Credit Facility, will be sufficient to

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fund our U.S. operations and cash commitments for investing and financing activities, including debt repayment and capital expenditures for at least the next twelve months and thereafter for the foreseeable future. Under current tax laws and regulations, if cash and cash equivalents and investments held outside the United States were to be distributed to the United States in the form of dividends or otherwise, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The potential tax liability related to any repatriation would depend on the tax laws of the United States and the respective foreign jurisdictions and on the facts and circumstances that exist at the time such repatriation is made.

In October 2011, we entered into a credit agreement with certain lenders. Such credit agreement and the related security agreement provided for a senior secured credit facility consisting of a $185 million term loan and a $65 million revolving line of credit, each with a term of five years.

On July 18, 2013, we entered into a new credit agreement with certain lenders (New Credit Agreement), which replaced the prior credit agreement. The New Credit Agreement consists of a senior secured revolving credit facility of $275 million with a term of five years (New Credit Facility). The New Credit Agreement also provides us with the option to increase the aggregate principal amount of loans in the form of additional revolving loans or a separate tranche of term loans, in an aggregate amount that does not exceed $50 million, in each case subject to certain terms and conditions contained in the New Credit Agreement. Concurrently with the closing of the New Credit Agreement, we terminated the prior credit agreement after repaying the entire outstanding principal amount of $152.6 million and all accrued interest and fees thereon, utilizing $120.0 million borrowed under the New Credit Facility together with a portion of our then-existing cash balances.

At December 28, 2013, the outstanding balance under the New Credit Facility was $83.0 million. The interest rate per annum applicable to amounts outstanding under the New Credit Facility is, at our option, either (a) the base rate as defined in the New Credit Agreement (Base Rate) plus an applicable margin, or (b) the Eurodollar Rate as defined in the New Credit Agreement (Eurodollar Rate) plus an applicable margin. A commitment fee is payable on the unused portion of the New Credit Facility. The margins over the Base Rate and Eurodollar Rate applicable to the loans outstanding under the New Credit Facility, and the commitment fee, are adjusted periodically based on our consolidated leverage ratio, as calculated pursuant to the New Credit Agreement. The maximum applicable margins are 1.25% per annum for Base Rate loans and 2.25% per annum for Eurodollar Rate loans, and the minimum applicable margins are 0.5% per annum for Base Rate loans and 1.5% per annum for Eurodollar Rate loans. The maximum commitment fee is 0.40% per annum, and the minimum commitment fee is 0.25% per annum. As of December 28, 2013, the interest rate per annum applicable to amounts outstanding under the New Credit Facility was 1.94%, and the commitment fee on the unused portion of the New Credit Facility was 0.30%.

Our obligations under the New Credit Agreement are secured by a lien on substantially all of the assets of Newport Corporation and certain of our U.S. subsidiaries, which are guarantors under the New Credit Agreement, as well as by a pledge of certain shares of our international subsidiaries. Our ability to borrow funds under the New Credit Facility is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties. In particular, our borrowing capacity under the New Credit Facility is limited by our Consolidated Adjusted EBITDA (as defined in the New Credit Agreement) for the preceding four fiscal quarters. At December 28, 2013, based on our Consolidated Adjusted EBITDA, the $83.0 million borrowed under the New Credit Facility, additional indebtedness (including capital leases) of $6.3 million and outstanding letters of credit of $2.6 million, we had approximately $112.5 million available for additional borrowing under the New Credit Facility.

During 2011, we issued 200 million Japanese yen ($1.9 million at December 28, 2013) in private placement bonds through a Japanese bank. These bonds bear interest at a rate of 0.62% per year, payable in cash semiannually in arrears on June 30 and December 31 of each year, and mature on June 30, 2014. The bonds are included in the current portion of long-term debt in *short-term borrowings* in the accompanying consolidated balance sheets as of December 28, 2013.

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At December 28, 2013, we had (i) revolving lines of credit with Japanese banks; (ii) agreements with Japanese banks under which we sell trade notes receivable with recourse; (iii) loans with Japanese banks; and (iv) loans with Israeli banks, as follows:

Description	Principal Amount Outstanding (in millions)	Amount Available for Borrowing (in millions)	Interest Rate(s)	Expiration Date(s)
Japanese lines of credit	$ 0.7	$ 1.0	1.16% to 2.20%	No expiration dates
Japanese agreements for sale of receivables	0.6	4.6	1.475%	No expiration dates
Japanese loans	0.2		1.25% to 1.30%	Various dates through November 2016
Israeli loans	2.2		2.97% to 3.28%	Various dates through October 2015

In May 2008, our Board of Directors approved a share repurchase program, authorizing the purchase of up to 4.0 million shares of our common stock. No purchases were made under this program during 2013, 2012 or 2011. As of December 28, 2013, 3.9 million shares remained available for purchase under the program. The terms of the New Credit Agreement permit us to purchase shares under the repurchase program, subject to certain conditions and limitations.

We expect to use $16 million to $20 million of cash for capital expenditures during 2014.

We believe our current working capital position, together with our expected future cash flows from operations will be adequate to fund our operations in the ordinary course of business, anticipated capital expenditures, debt payment requirements and other contractual obligations for at least the next twelve months. However, this belief is based upon many assumptions and is subject to numerous risks (see Risk Factors on pages 18-32), and there can be no assurance that we will not require additional funding in the future.

Except for the aforementioned capital expenditures, we have no present agreements or commitments with respect to any material acquisitions of other businesses, products, product rights or technologies or any other material capital expenditures. We will continue to evaluate potential acquisitions of and/or investments in products, technologies, capital equipment or improvements or companies that complement our business and may make such acquisitions and/or investments in the future. Accordingly, we may need to obtain additional sources of capital in the future to finance any such acquisitions and/or investments. However, the New Credit Agreement only permits us to make investments and acquisitions under certain circumstances, and restricts our ability to incur additional indebtedness, which limits to some extent our ability to make such acquisitions and investments. We therefore may not be able to obtain such financing on commercially reasonable terms, if at all. Even if we are able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, or cause substantial dilution for our stockholders, in the case of equity financing.

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Contractual Obligations

We lease certain of our manufacturing and office facilities and equipment under non-cancelable leases, certain of which contain renewal options. In addition to the base rent, we are generally required to pay insurance, real estate taxes and other operating expenses relating to such facilities. In addition, we have purchase obligations related to minimum usage amounts for telecommunications and data services and other fees for information technology applications. We typically exceed these minimum purchase obligations.

Our long-term debt, capital and operating lease obligations, purchase obligations and pension benefit obligations at December 28, 2013 were as follows:

	Payments due by period				
(In thousands)	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Debt obligations	$ 4,861	$ 646	$ 83,000	$	$ 88,507
Capital lease obligations	184	365	184		733
Operating lease obligations	10,370	15,960	13,886	14,948	55,164
Purchase obligations	4,030	3,061			7,091
Pension benefits	1,671	3,906	2,390	22,939	30,906
	$ 21,116	$ 23,938	$ 99,460	$ 37,887	$ 182,401

Our gross unrecognized tax benefits at December 28, 2013 were $17.4 million. However, we are not able to provide a detailed estimate of the timing of payments related to our gross unrecognized tax benefits due to the uncertainty of when the related tax settlements are due. We do not anticipate that our unrecognized tax benefits will change significantly over the next twelve months.

New Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, *Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires companies to disclose significant amounts that have been reclassified out of accumulated other comprehensive income. Amounts that are required to be reclassified in their entirety to net income must be disclosed either on the face of the income statement or in the notes to the financial statements. Amounts that are not required to be reclassified in their entirety to net income in the same reporting period must be disclosed by a cross reference to other disclosures that provide additional information regarding such amounts. ASU No. 2013-02 is effective for fiscal years and interim periods beginning after December 15, 2012. The adoption of ASU No. 2013-02 has not had a material impact on our financial position or results of operations.

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters: Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*, which clarifies the guidance in Topics 810 and 830. Topic 810 requires companies to deconsolidate a subsidiary or derecognize a group of assets if the parent ceases to hold a controlling financial interest in that subsidiary or group of assets. Upon the loss of a controlling financial interest, the parent would recognize the cumulative translation adjustment in net income. The guidance in Topic 810 does not distinguish between a sale or transfer of an investment *in* a foreign entity and a sale or transfer of a subsidiary or group of assets *within* a foreign entity.

Topic 830 requires the release of the cumulative translation adjustment into net income if a sale or transfer represented a complete or substantially complete liquidation of an investment *in* a foreign entity. ASU No. 2013-05 clarifies that companies that cease to have a controlling financial interest in a subsidiary or group of assets *within* a foreign subsidiary should release the cumulative translation adjustment into net income if the sale or transfer results in a complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU No. 2013-05 has become effective for fiscal years beginning after December 15, 2013. The adoption of ASU No. 2013-05 has not had a material impact on our financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which provides explicit guidance on the financial statement presentation of an unrecognized tax benefit. ASU No. 2013-11 requires unrecognized tax benefits to be presented as a reduction to a deferred tax asset, except that, if a net operating loss

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carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position, then the unrecognized tax benefit should be presented as a liability. ASU No. 2013-11 has become effective for fiscal years and interim periods beginning after December 15, 2013. The adoption of ASU No. 2013-11 has not had a material impact on our financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which we are exposed are changes in foreign exchange rates, which may generate translation and transaction gains and losses, and changes in interest rates.

Foreign Currency Risk

Operating in international markets sometimes involves exposure to volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on our operating results is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, may cause us to adjust our financing and operating strategies. Consequently, isolating the effect of changes in currency does not incorporate these other important economic factors.